AN ASSESSMENT OF TRADE AND INDUSTRIAL POLICY, 1986-1988

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I. INTRODUCTION

Industrialization is among the primary goals of almost all developing nations. To achieve this, developing nations adopt various policy tools which generally involve trade policy and fiscal incentives. Trade policy, in particular, is highly intertwined with the industrialization policy chosen - i.e., either import substitution or export-orientation.

The Philippines is among the first to embark in an import substitution industrialization drive in the Asian Region, even ahead of South Korea and Taiwan. Early on, South Korea and Taiwan switched to export-oriented strategy. The Philippines, however, despite some attempts at export promotion, still espouses an import-substitution, inward-looking, industrialization strategy.

Still, even before the assumption of the Aquino Government, major reforms have been implemented in the major areas of trade and industrial policies. These include the 1981-85 Tariff Reform Program (TRP), an aborted import liberalization plan during the same period, Batas Pambansa (BP) 391 in 1983 reforming the Omnibus Investment Code, and various export promotion schemes aside from the export incentives contained in BP 391.

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*This is Chapter VI of a bigger study entitled "An Assessment of the Performance of the Aquino Government in Selected Policy Areas, 1986-1988."

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Since the Aquino Government took over in 1986, further reforms have been undertaken in these policy areas. For example, all export taxes (except for logs) were removed. Many more items were liberalized. Three Executive Orders (EOs) and a Republic Act (Tariff Bill) were enacted effecting tariff changes. A new Omnibus Investment Code was passed (EO226) in 1987.

This paper attempts to assess the state of trade and industrial policy and analyze the reforms which have been implemented during the first three years of the Aquino Administration. Specifically, the study covers the period from 1986 to 1988. As such, the major policies in the area of Trade and Industry, with focus on the important policy reforms, are identified. These are then evaluated with respect to:

(a) how consistent they are to stated objectives and, when relevant, other national objectives, and

(b) their impact - qualitative and, when feasible, quantitative - on certain important economic variables.

The paper is divided into four sections to cover the four main policy areas in Trade and Industry. The first section reviews and assesses the trade policy situation, presenting and evaluating the reforms undertaken in tariff policy and import liberalization program. It also examines some proposed policy changes, adopted or otherwise, to gauge the likely policy direction the government would take. Their consistency with stated and other national objectives is discussed. The second section deals with the exchange rate policy and its impact on trade and industry. The third section evaluates the 1987 Omnibus Investment Code (OIC), particularly with respect to its impact on factor prices and incentives to exports. Finally, the fourth section describes and analyzes the major export promotion schemes aside from the export incentives provided in the 1987 OIC under the Board of Investment (BOI).

II. REVIEW OF THE PHILIPPINE TRADE POLICY: 1986-1988

Starting in 1981, even before the assumption of the Aquino Government, major trade reforms have been implemented, the most notable of which is the 1981-85 Tariff Reform Program (TRP). It would have been accompanied by an import liberalization scheme if not for the Balance-of-Payments (BOP) crisis which erupted in the latter half of 1983. Amid some degree of controversy, the commitment to liberalize imports survived in the new government under the Aquino Administration. There were instances which indicate some wavering of purpose, but on the whole, a number of trade reforms have been undertaken since the Aquino government took over. Perhaps, the most important of these has been the removal of all export taxes (except for logs) which imposed a heavy burden on the large agricultural sector.

A. The Tariff and Trade Policy Situation: 1986-1988

As part of the strategy enunciated in the Philippine Medium-Term Plan, government policy in the area of tariffs and trade is supposed to move towards the direction of greater trade liberalization. This implies a move towards a more uniform tariff range and the eventual removal of all quantitative restrictions on imports except for those which are clearly for security, and health and safety reasons.

The rationale for such a strategy could be found in the heart of economics and previous studies showing the great burden and costs of protection. Protection -- via tariffs and, more seriously, import controls -- distorts prices with greatly adverse consequences. Past studies have shown how price distortions created by the past trade protectionist policies discriminated heavily against agriculture in favor of manufacturing (mainly the finishing stage, import substitution type), against exports and labor-intensive industries in favor of large-scale, capital-intensive industries. The ultimate cost of protection is thus the serious misallocation of resources that arise from distorted prices and, hence, distorted market incentives induced by tariffs and import controls. In sum, the strategy of a freer trade regime espoused in the Medium-Term Plan is designed to foster competition and provide an even playing field which would induce to reveal, and encourage to develop, industries with real comparative advantage.

Contrary to the belief of some, such a strategy is also most appropriate for an economy heavily burdened with foreign debt, as it would encourage the earning of foreign exchange (if coupled with a realistic exchange rate policy). Artificially making protected import substituting industries relatively more profitable through tariffs and import controls automatically makes potentially profitable exports less attractive. Scarce resources would flow towards the protected sectors leaving less resources for the potentially more profitable industries. Studies, e. g., Bautista and Power (1979), indicate much greater cost, in general, of saving foreign exchange by these protected sectors than the cost of earning foreign exchange by export industries. In other words, suppressing the demand for foreign exchange via tariffs and import controls on the one hand, and encouraging its supply on the other, are not symmetrical. The former is by far more costly than the latter in freeing additional foreign exchange. As a result, the net cost, at the margin, of producing foreign exchange is greatly increased by protectionist trade policies. By ridding the market of distortions, trade liberalization would promote a more efficient

allocation of resources and eventually lower the cost of producing much needed foreign exchange. 1/

The policy pronouncement of moving in the direction towards greater trade liberalization, as enunciated in the Philippine Medium-Term Development Plan, is thus based on sound economic analysis. It is consistent with the overall employment-oriented and rural-based development strategy. The question now is how actual policy formulation in the area of trade follows the policy pronouncement and the inherent objectives therein.

In the area of tariffs, the major changes are embodied in three Executive Orders (EO), and a Republic Act (RA) passed by Congress. These are EO 49 (15 October 1986), EO 70 (12 November 1986), EO 306 (7 October 1987), and RA 6647 (27 July 1987). Table 1 presents the number of tariff changes made by tariff level.

EO 306 was solely for reducing the tariff on crude oil from 20 percent to 15 percent. The rest effected changes on a total of 241 tariff lines, out of which, 103 tariff lines mainly involved a change in classification with no actual change in the tariff level. Increase in the tariff rate was registered in 83 tariff lines, the majority of which comes from former tariff rates of 30 and 20 percent (35 lines were raised from a previous tariff rate of 30 percent and 29 lines from 20 percent tariff rate). On the other hand, duties were reduced for 55 tariff lines, almost half of which were from a 20 percent tariff rate.

The Tariff Commission-PIDS project (1989) computed the effect of these changes on average tariffs by sector. The results are presented in Table 2. 2/ Several weighting schemes were used by the project. 3/ Two of these are: (1) free-trade value added, [FTVA*Qb], and (2) (2Qb + M) for importables and (2Qb - X) for exportables, [2Q+M/-X]; where Qb is the value of

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1/ This assumes, however, that the exchange rate is allowed to seek its true value. If the exchange rate is fixed at an unrealistically low level, imports become artificially cheap while at the same time the price producers received for their exports are also low. Consequently, domestic producers, whether for exports or for home market, would not be able to compete.

2/ The Tariff Commission (TC), under the TC-PIDS joint project, computed average tariffs and Effective Rates of Protection using the 127 x 127 Input-Output Category.

3/ Weighting has always been a problem. This is discussed in a special paper in Bautista and Power (1979).

Table 1: NUMBER OF TARIFF CHANGES BY TARIFF RATE LEVELS
EO 49, EO 20 & RA 6646

Tariff 1988

FROM PREVIOUS TARIFF \ TO	10			20			30			40			50			+			0			-		
	EO 49	EO 70	RA 6646	EO 49	EO 70	RA 6646	EO 49	EO 70	RA 6646	EO 49	EO 70	RA 6646	EO 49	EO 70	RA 6646	EO 49	EO 70	RA 6646	EO 49	EO 70	RA 6646	EO 49	EO 70	RA 6646
5	2	2		3	3											5	5		0	0		0	0	
10	5	5	5			2			4							0	0	6	5	5	5	0	0	0
20	14	9	4	2	1	19	3	3	15	3	3	2				6	6	17	2	1	19	14	9	4
30			4			4	2	1	36	10	7	4	6	6	2	16	13	6	2	1	36	0	0	8
40			2			4	1		1			13			2	0		2	0	0	13	1		7
50	1	1	2	3	1		1	1	2						14	0	0	0	0	0	14	5	3	4
NEW CODE			3		2	1		1	5			1			1									
All	22	17	20	8	7	30	7	6	63	13	10	20	6	6	19	27	24	31	9	7	88	20	15	33

NOTE:

a. The matching from previous tariff level to new tariff level is not perfect.
Some items had numerous tariff, and quite a number had specific rates at the same time.

b. EO 306 (Oct. 7, 1987) reduced crude oil tariff from 20% to 15%.

production in border prices, M is imports and X is exports. 4/ Although the magnitudes resulting from the two sets of weights differ, the overall structure and direction indicated by both estimates are more or less the same. We then present results using only one set of weights - that using free trade value-added (See Table 2).

Table 2 shows a slight increase in the average tariff for all importables from 30.2 percent in 1985 (i.e., the period prior to changes) to 30.8 percent in 1986, before going down in 1988 to 30.1 percent. Average export tax, on the other hand, was reduced by half from 4.5 percent in 1985 to 2.2 percent in 1986 with the removal of all export taxes except for logs. Thus, overall average tariffs (i.e., for both exportables and importables), using book rates, rose from 14.6 percent in 1985 to 15.5 percent in 1988.

Comparing across major sectors, in 1985, manufacturing received the highest nominal protection at around 20.1 percent, followed by agriculture at around 9.9 percent, fishing at 5.6 percent, mining at 3.4 percent and lastly, logging and other forestry at -17.8 percent. The negative average tariff in logging and forestry could be explained by the 20 percent export tax on logs which was imposed for environmental and conservation reasons and to capture rents. (These have been argued to be at most second-best justification for the export tax, given an inadequate forest taxation capability.) The average tariff in mining was low since a large part of it was exportable. Even considering only importables, the average tariff was still lower at 16.6 percent for mining compared to the overall average of 30.2 percent, as mining products are mainly raw materials and/or intermediate inputs which were generally taxed at lower rates. But more important than these considerations, the larger part of the population belong to the agricultural and fishing sectors. Thus, the more significant difference was between manufacturing on the one hand, and agriculture and fishing on the other. It is interesting to note, however, that average tariff for importable agriculture was much higher at 46.1 percent than that for importable manufacturing at 28.5 percent. Still, because agriculture is a net exporting sector, average tariff for agriculture was less than half that for manufacturing.

Within manufacturing, large disparities were also present -- highest for paper, rubber and plastic products at 36.6 percent, chemicals and chemical products at 27.7 percent, and metals and

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4/ The second set of weights is designed to represent marginal imports and exports, the ideal weights to use, assuming (1) that home demand elasticities are twice that of home supply elasticities, and (2) that these elasticities are uniform across sectors.

Table 2: AVERAGE TARIFF AND STANDARD DEVIATION BY MAJOR GROUP
(EXPORTABLES & IMPORTABLES)
Using book rate
Wt. used: FTVA x Qb

Sector Group		1985 (1)	1985 SD	1986 (1)	1986 SD	1988 (1)	1988 SD
03-96	ALL SECTORS	0.1457	0.2109	0.1593	0.1927	0.1554	0.1907
	Exportables	-0.0452	0.0697	-0.0222	0.0628	-0.0222	0.0628
	Importables	0.3021	0.1505	0.3081	0.1233	0.3010	0.1260
03-22	AGRICULTURE,FISHING & FORESTRY	0.0353	0.2272	0.0199	0.1538	0.0214	0.1561
	Exportables	-0.0685	0.0840	-0.0423	0.0816	-0.0423	0.0816
	Importables	0.4677	0.0734	0.2784	0.1068	0.2865	0.1042
03-13	Agriculture	0.0994	0.2483	0.0725	0.1151	0.0725	0.1151
	Exportables	-0.0566	0.0678	0.0000	0.0000	0.0000	0.0000
	Importables	0.4611	0.0819	0.2407	0.0591	0.2407	0.0591
19-20	Fishing	0.0555	0.1670	0.0480	0.1373	0.0525	0.1438
	Exportables	-0.0071	0.0096	0.0000	0.0000	0.0000	0.0000
	Importables	0.4992	0.0010	0.3876	0.1443	0.4245	0.0962
21-22	Logging and other forestry activities	-0.1778	0.1141	-0.1778	0.1141	-0.1778	0.1141
	Exportables	-0.2000	0.0000	-0.2000	0.0000	-0.2000	0.0000
	Importables	0.4072	0.0000	0.4072	0.0000	0.4072	0.0000
23-27	MINING	0.0341	0.0696	0.0341	0.0696	0.0341	0.0696
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.1660	0.0409	0.1660	0.0409	0.1660	0.0409
28-96	MANUFACTURING	0.2011	0.1059	0.2284	0.1753	0.2219	0.1742
	Exportables	-0.0228	0.0357	0.0000	0.0000	0.0000	0.0000
	Importables	0.2849	0.1456	0.3148	0.1241	0.3050	0.1279
28-45	Food processing	0.2001	0.2073	0.2539	0.1858	0.2428	0.1866
	Exportables	-0.0394	0.0418	0.0000	0.0000	0.0000	0.0000
	Importables	0.2899	0.1699	0.3492	0.1191	0.3339	0.1321
46-50	Beverages and Tobacco	0.2543	0.2500	0.2543	0.2500	0.2543	0.2500
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.5000	0.0000	0.5000	0.0000	0.5000	0.0000

continuation of Table 2 ....

Sector Group		1985 (1)	1985 SD	1986 (1)	1986 SD	1988 (1)	1988 SD
51-55	Textile and Footwear	0.1186	0.1688	0.1850	0.1610	0.1850	0.1610
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.3655	0.0317	0.3472	0.0403	0.3472	0.0403
56-58	Wood and wood products	-0.0199	0.0200	0.0000	0.0000	0.0000	0.0000
	Exportables	-0.0199	0.0200	0.0000	0.0000	0.0000	0.0000
	Importables	--	--	--	--	--	--
59-66	Paper,rubber,leather & plastic prdts.	0.3667	0.1464	0.3917	0.1491	0.3668	0.1468
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.4067	0.0866	0.4344	0.0780	0.4059	0.0877
67-75	Chemicals and chemical products	0.2769	0.1126	0.2638	0.1198	0.2638	0.1198
	Exportables	--	--	--	--	--	--
	Importables	0.2769	0.1126	0.2638	0.1198	0.2638	0.1198
76-79	Non-metallic mineral products	0.2182	0.0826	0.2182	0.0826	0.2182	0.0826
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.2221	0.0779	0.2221	0.0779	0.2221	0.0779
80-82	Basic metals and metal products	0.2702	0.0975	0.2513	0.1114	0.2513	0.1114
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.2750	0.0915	0.2557	0.1072	0.2557	0.1072
83-91	Mach. incl. electrl eqpt, transport eqpt.	0.1971	0.1337	0.1971	0.1337	0.1971	0.1337
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.2446	0.1029	0.2446	0.1029	0.2446	0.1029
92-96	Miscellaneous manufactures	0.2218	0.1512	0.2127	0.1419	0.2127	0.1419
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.3143	0.0576	0.3013	0.0426	0.3013	0.0426

(1) Weighted Average Tariff
SD - Standard Deviation

metal products at 27.0 percent, and lowest for wood and wood products at -2.0 percent and textile and footwear at 11.1 percent. Of course, overall, the largest disparity was still between exportables and importables, regardless of which sectors they belong to.

The tariff changes between 1986 and 1988 brought about changes in the nominal tariff structure. The changes, in general, were minimal. The biggest change occurred in importable agriculture whose average tariff went down from 46.1 percent in 1985 to 24.1 percent in 1986 then remained the same in 1988. This was largely due, however, not to the tariff changes, but to the indirect tax realignment between imports and local products. 5/ Before the realignment, agriculture received a substantial additional protection from differential sales tax -- imports were levied 10 to 25 percent sales tax over a mark-up of 25 percent while local agricultural products were imposed only a one percent sales tax. In contrast, manufacturing products (except for those levied specific sales taxes such as tobacco products) were generally imposed the same percentage sales tax except for the mark-up in the case of imports. Thus the realignment of indirect taxes implied a much greater reduction of protection in agriculture than in manufacturing. This is not to imply that the indirect tax realignment is underivable. On the contrary, it is consistent with the move towards a more uniform protection structure.

On the other hand, average tariff for importable manufacturing even went up from 28.5 percent in 1985 to 31.4 percent in 1986 before slightly going down to 30.5 percent in 1988, which is still higher than the original level. The main beneficiary of this positive change was the importable food processing sector -- from 29.0 percent in 1985 to 34.9 percent in 1986 and 33.4 percent in 1988. The average tariff for importable paper, rubber, and plastic products also went up in 1986 but it went back to almost its original level in 1988.

Fishing is another interesting case. The average tariff for importable fishing went down from 49.9 percent in 1985 to 38.8 percent in 1986, then it went up again, though not to its original level, to 42.5 percent in 1988.

In sum, then, tariff changes have been minimal and did not alter much the tariff protection structure. Nevertheless, it seems that whatever effect there was, appears to be opposite what should have been if the policy direction of more uniform tariff were strictly followed. This is, however, an incomplete picture of the protection structure. The tariff changes were principally intended as a temporary adjustment measure to accompany the

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5/ This was implemented in October 1985, i.e., before Aquino.

import liberalization which has occurred. (Although whether it remains temporary has become more and more questionable). Thus, such movement of the tariff book rate in the opposite direction could be expected. Furthermore, the standard deviation around the average tariff went down between 1985 and 1988, implying less tariff variation. Still, the results show that certain sector has been more favored than others in terms of increasing nominal protection.

Any program of tariff reform would be meaningless without a complementary plan to remove import restrictions. Tariff reduction where quantitative restriction to import (QR) remains, for example, merely implies a transfer of tariff revenues for the government to private rents in the hands of those who are able to secure the license to import -- obviously a worse situation than before. What follows, then, is an assessment of how the Aquino government performed in the area of import liberalization.

Table 3 gives the aggregate number of items regulated, liberalized, and newly regulated by year from 1977 to 1988. There are shortcomings in using such a frequency index to gauge the degree of restrictiveness of the trade regime. It assumes that all items are equally important and that all import controls are uniformly administered and uniformly restrictive. Still, the large difference in the figures before and after 1985 gives enough indication as to the overall direction of change. In 1985, more than 34 percent of the total number of PSCC (Philippine Standard Commodity Classification) lines were regulated. With the import liberalization episodes from 1986 to 1988, this went down to 17.3 percent in 1986, 14.2 percent in 1987 and 10.2 percent in December 1988.

Table 4 presents a more disaggregated picture of the coverage of quantitative restrictions -- referred to in the table as NTM (Non-tariff Measures) coverage -- by major sectors. In 1985, the NTM coverage in agriculture and fishing was around 30.6 percent, close to that in manufacturing with 32.1 percent. Fishing, beverages and tobacco, and food processing sub-sectors had the highest NTM coverage at 95.7 percent, 84.2 percent and 44.8 percent, respectively.

With the removal of quantitative restrictions from 1986 to 1988, the NTM coverage went down substantially in 1988. Based on frequency index alone, there appears to have been a greater liberalization in agriculture as compared with manufacturing. The NTM coverage went down to only 1.6 percent for agriculture while that for manufacturing went down to 9.4 percent. (These figures are not based on an exhaustive list as certain I-O sectors considered nontraded, affecting more particularly the agricultural sectors, were left out. Still the difference between the estimate for agriculture and that for manufacturing is quite substantial to warrant such conclusion.) Again,

Table 3: NUMBER OF ITEMS REGULATED, LIBERALIZED AND NEWLY REGULATED BY YEAR, 1977 TO 1988

	Total Number Regulated	Newly Regulated	Liberalized	No. of Regulated Items as Percent of total number of PSCC lines (%)
1977	1892	47	-	33.5
1978	1926	34	-	34.2
1979	2031	104	-	36.0
1980	2032	1	-	36.0
1981	1771	2	263	31.4
1982	1438	277	610	25.5
1983	1988	598	48	35.3
1984	1994	6	-	35.4
1985	1924	-	70	34.1
1986	973	-	951	17.3
1987	802	-	171	14.2
1988	673	-	129	11.9
Dec. 1988	579	-	94	10.2

Table 4: NTM COVERAGE BY MAJOR GROUPS
(1984-1988)

I/O	SECTOR	Total No. of PSCCs in sector	1984 PSCCs w/ NTMs	1984 NTM Coverage (%)	1985 PSCCs w/ NTMs	1985 NTM Coverage (%)	1986 PSCCs w/ NTMs	1986 NTM Coverage (%)	1987 PSCCs w/ NTMs	1987 NTM Coverage (%)	1988 PSCCs w/ NTMs	1988 NTM Coverage (%)
03-96	ALL SECTORS	5,498	1790	32.56	1720	31.28	783	14.24	614	11.17	485	8.82
03-22	AGRICULTURE,FISHING AND FORESTRY	406	122	30.05	118	29.06	33	8.13	30	7.39	14	3.45
03-13	Agriculture	323	87	26.93	84	26.01	24	7.43	21	6.50	5	1.55
19-20	Fishing	23	22	95.65	22	95.65	8	34.78	8	34.78	8	34.78
21-22	Logging & Others	60	13	21.67	12	20.00	1	1.67	1	1.67	1	1.67
23-27	MINING	108	1	0.93	1	0.93	1	0.93	1	0.93	1	0.93
28-96	MANUFACTURING	4,984	1667	33.45	1601	32.12	749	15.03	583	11.70	470	9.43
28-45	Food processing	536	268	50.00	240	44.78	82	15.30	80	14.93	65	12.13
46-50	Beverages and Tobacco	57	52	91.23	48	84.21	7	12.28	2	3.51	0	0.00
51-55	Textile and Footwear	706	276	39.09	268	37.96	149	21.10	77	10.91	1	0.14
56-58	Wood and Wood products	164	18	10.98	15	9.15	0	0.00	0	0.00	0	0.00
59-66	Paper,Rubber,leather & plastic prod.	491	216	43.99	203	41.34	73	14.87	15	3.05	15	3.05
67-75	Chemicals and chemical products	676	129	19.08	129	19.08	70	10.36	66	9.76	60	8.88
76-79	Non-metallic mineral products	234	81	34.62	79	33.76	50	21.37	40	17.09	30	12.82
80-82	Basic metals and metal products	605	209	34.55	207	34.21	26	4.30	11	1.82	7	1.16
83-91	Mach. incl. elactrl. & Transp. Eqpt.	1,008	213	21.13	213	21.13	210	20.83	210	20.83	210	20.83
92-96	Miscellaneous Manufactures	507	205	40.43	199	39.25	82	16.17	82	16.17	82	16.17

Note: The count is not exhaustive as certain I-O sectors,considered non-traded, were left out.

Source: Tariff Commission

however, we should bear in mind that within manufacturing, the changes vary. The whole manufacturing sector is not uniformly affected.

There was virtually no liberalization in electrical machinery and transport equipment, where the NTM index fell only slightly from 21.1 percent in 1985 to 20.8 percent in 1988. In 1988, this sector has the second highest NTM index. Fishing remains to have the highest NTM coverage at 34.8 percent. Non-metallic mineral products and food processing are the other two sectors with higher than average NTM coverage. Again, the limitations of such an index should be borne in mind. Still, as in the case of tariff changes, the figures give some indication as to which sector has been more favored than others.

To capture more adequately the effects of both tariff and non-tariff measures on nominal protection, an attempt was made by the TC-PIDS project to estimate tariff equivalents of non-tariff measures by comparing domestic and border prices whenever feasible and applicable. This will reveal more sufficiently the nominal protection afforded by both tariff and non-tariff measures and the magnitude and direction of change effected by both tariff changes and the removal of quantitative restrictions. The results are presented in Table 5. (Again, several sets of weights were used by the TC-PIDS project. As in the case of using book rates, the results from the two sets of estimates are similar with respect to the trend and direction of change. Again, as such, only one set of results is used in the discussion.)

The more important estimates are those for importables (i.e., excluding exportables). The average tariff for importables (all sectors) went down in both 1986 and 1988. The decrement was, however, small -- from 46.6 percent in 1985 to 45.9 percent in 1986, to 43.9 percent in 1988. This seems to imply that the degree of liberalization is not as great as that indicated earlier by the frequency index. This finding is quite plausible for two main reasons. First, the degree of restrictiveness of non-tariff measures and their relative importance with respect to production and consumption vary across commodities. It is logical to assume that liberalization would start with those commodities of least importance and with least resistance to change. Second, the government replaced, for many cases, QRs with tariffs (although perhaps not by as much as their full tariff equivalent as the tariff range is limited to 10 to 50 percent).

The data could, of course, be seriously flawed. More important than this possibility, however, which should qualify this conclusion is the fact that the figures are average. Implicit tariffs vary across sectors, across commodities.

Table 5: AVERAGE TARIFF AND STANDARD DEVIATION BY MAJOR GROUP
(EXPORTABLES & IMPORTABLES)
Using price comparison
Wt. used: FTVA & Qb

Sector Group		1985 (1)	1985 SD	1986 (1)	1986 SD	1988 (1)	1988 SD
03-96	ALL SECTORS	0.2163	0.3502	0.2242	0.3004	0.2140	0.3002
	Exportables	-0.0462	0.0383	-0.0227	0.0000	-0.0227	0.0000
	Importables	0.4660	0.3899	0.4592	0.3426	0.4391	0.3425
03-22	AGRICULTURE,FISHING & FORESTRY	0.0569	0.2705	0.0567	0.2344	0.0582	0.2357
	Exportables	-0.0671	0.0834	-0.0407	0.0805	-0.0407	0.0805
	Importables	0.5575	0.1670	0.4496	0.2407	0.4575	0.2338
03-13	Agriculture	0.1395	0.3169	0.1445	0.2614	0.1445	0.2614
	Exportables	-0.0568	0.0679	0.0000	0.0000	0.0000	0.0000
	Importables	0.5807	0.1061	0.4692	0.2636	0.4692	0.2636
19-20	Fishing	0.0555	0.1669	0.0479	0.1373	0.0525	0.1438
	Exportables	-0.0071	0.0096	0.0000	0.0000	0.0000	0.0000
	Importables	0.4992	0.0010	0.3876	0.1443	0.4245	0.0962
21-22	Logging and other forestry activities	-0.1767	0.1167	-0.1767	0.1167	-0.1767	0.1167
	Exportables	-0.2000	0.0000	-0.2000	0.0000	-0.2000	0.0000
	Importables	0.4072	0.0000	0.4072	0.0000	0.4072	0.0000
23-27	MINING	0.0423	0.0754	0.0423	0.0754	0.0423	0.0754
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.1669	0.0405	0.1669	0.0405	0.1669	0.0405
28-96	MANUFACTURING	0.3120	0.4583	0.3247	0.4050	0.3075	0.3990
	Exportables	-0.0222	0.0333	0.0000	0.0000	0.0000	0.0000
	Importables	0.4577	0.4808	0.4663	0.4117	0.4415	0.4116
28-45	Food processing	0.2063	0.2284	0.2595	0.1979	0.2479	0.1998
	Exportables	-0.0368	0.0413	0.0000	0.0000	0.0000	0.0000
	Importables	0.2965	0.1095	0.3559	0.1393	0.3399	0.1517
46-50	Beverages and Tobacco	0.2445	0.2499	0.2445	0.2499	0.2445	0.2499
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.5000	0.0000	0.5000	0.0000	0.5000	0.0000

continuation of Table 5 ....

Sector Group		1985 (1)	1985 SD	1986 (1)	1986 SD	1988 (1)	1988 SD
51-55	Textile and Footwear	0.2120	0.3644	0.2014	0.3527	0.0949	0.1586
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.7915	0.1927	0.7522	0.2241	0.3542	0.0455
56-58	Wood and wood products	-0.0230	0.0198	0.0000	0.0000	0.0000	0.0000
	Exportables	-0.0230	0.0198	0.0000	0.0000	0.0000	0.0000
	Importables	--	--	--	--	--	--
59-66	Paper,rubber,leather & plastic prdts.	0.5659	0.4910	0.4355	0.2374	0.3646	0.1790
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.6783	0.4612	0.5220	0.1496	0.4370	0.0822
67-75	Chemicals and chemical products	0.4020	0.0804	0.3947	0.0962	0.3947	0.0962
	Exportables	--	--	--	--	--	--
	Importables	0.4020	0.0804	0.3947	0.0962	0.3947	0.0962
76-79	Non-metallic mineral products	0.8197	0.3996	0.7762	0.1987	0.7762	0.1987
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.8418	0.3914	0.7971	0.1547	0.7971	0.1547
80-82	Basic metals and metal products	0.4877	0.5053	0.2189	0.1011	0.2189	0.1011
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.5003	0.5056	0.2245	0.0960	0.2245	0.0960
83-91	Mach. incl. electrl eqpt, transport eqpt.	0.5976	1.5068	0.5976	1.5068	0.5976	1.5068
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	1.0103	1.8497	1.0103	1.8497	1.0103	1.8497
92-96	Miscellaneous manufactures	0.4339	0.4387	0.1525	0.1634	0.1525	0.1634
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.9035		0.3176	0.0562	0.3176	0.0562

(1) Weighted Average Tariff
SD - Standard Deviation

The largest decline in average tariff occurred in miscellaneous manufactures (from 90 to 32 percent), basic metals and metal products (from 50 to 22 percent) and textile and footwear (from 79 to 35 percent). A sector which stood out is food processing whose average tariff even rose between 1985 and 1988 -- from around 30 percent in 1985, to 36 percent in 1986, to 34 percent in 1988. For the rest of the manufacturing sectors, there was a small decline in average tariff similar to the overall trend, or no change at all. The decline in average tariff for importable agriculture was greater than the overall change but its average level remained higher than average tariff for all importables. Thus, while there seems to be greater import liberalization in agriculture (as compared to manufacturing), importable agriculture remains, on average, to receive higher nominal protection.

Including both exportables and importables shows a much lower average tariff for agriculture than for manufacturing. Because of the removal of export taxes, however, average tariff for agriculture improved, increasing slightly from 13.9 percent in 1985 to 14.4 percent in 1988. In contrast, average tariff for manufacturing went down from 31.2 percent in 1985 to 30.8 in 1988 (rising to a little extent in between to 32.5 percent in 1986).

Many other observations could be gleaned from the tables thus far presented. For example, the ratio between average tariff using price comparison and that using book rate could be computed, as done in Table 6. The table shows the overall ratio going down from 1985 to 1988, which could be indicative of a decreasing reliance on non-tariff measures. Those noted so far, however, already provide some indication of the impact of policy changes in terms of direction, magnitude and structure. The next section will focus on the impact of these changes on the EPR structure.

B. The Effective Rate of Protection (EPR) Structure: 1986-1988

More important than the nominal protection on output derived from tariffs and import control is the effective protection on value-added for a particular activity resulting from tariffs and import controls on both output and inputs. Basically, the effective protection rate (EPR) is defined as the percentage excess of protected value-added over non-protected value-added. Thus, if Pbj and Pbi are the non-protected prices of the output j and input i respectively (which, thus, should equal the respective world prices at the country's border for tradable goods), tj and ti are the nominal protection on output j and input i respectively, then,

$$EPR = \frac{Pbj(1+tj) - E\ Pbi(1+ti)Aij}{Pbj - E\ PbiAij}$$

Table 6: RATIO OF AVERAGE TARIFF USING PRICE COMPARISON
TO AVERAGE TARIFF USING BOOK RATE
(Importables)
Wt. Used: FTVA * Qb

Sector	Group	1985	1986	1988
03-96	ALL SECTORS	1.5425	1.4904	1.4588
03-22	AGRICULTURE,FISHING & FORESTRY	1.1920	1.6149	1.5969
03-13	Agriculture	1.2594	1.9493	1.9493
19-20	Fishing a/	1.0000	1.0000	1.0000
21-22	Logging and other forestry activities a/	1.0000	1.0000	1.0000
23-27	MINING	1.0054	1.0054	1.0054
28-96	MANUFACTURING	1.6065	1.4850	1.4475
28-45	Food processing	1.0228	1.0192	1.0180
46-50	Beverages and Tobacco a/	1.0000	1.0000	1.0000
51-55	Textile and Footwear	2.1655	2.1665	1.0202
56-58	Wood and wood products *	--	--	--
59-66	Paper,rubber,leather & plastic prdts.	1.6678	1.2017	1.0766
67-75	Chemicals and chemical products	1.4518	1.4962	1.4962
76-79	Non-metallic mineral products	3.7902	3.5889	3.5889
80-82	Basic metals and metal products	1.8193	1.0000	1.0000
83-91	Mach. incl. electrl eqpt, transport eqpt.	4.1305	4.1304	4.1304
92-96	Miscellaneous manufactures	2.8746	1.0541	1.0541

* Purely exportable.

a/ Price comparison data not available.

where

Aij is the amount of input i going into the production per unit of output j.

This formula has a number of variations depending on the type of data available.

Using the estimated average tariffs by I-O sector for the years 1985, 1986 and 1988 and the 1983 I-O coefficients, the TC-PIDS project computed the effective protection rates for the corresponding I-O sectors and the corresponding years. The average EPR by major sectors were also computed again using the free-trade value-added as weights. The results are presented in Tables 7 to 10.

The first two tables, Tables 7 and 8, use book rates and show the effective protection from tariffs alone. A similar pattern as in nominal tariffs emerged. In 1985, manufacturing received the highest effective protection at around 38.0 percent, which was more than twice that for agriculture at 15.6 percent and more than four times that for fishing at 7.6 percent. The average EPR for the other major sectors are even lower, with mining at 2.8 percent and forestry at -20.0 percent. Again, for the same reasons mentioned earlier in the discussion with regards to nominal tariffs, the more important difference was between manufacturing on the one hand and agriculture and fishing on the other.

These figures are, however, average. There were large variations within sectors. Foremost of this resulted from the large disparity between exportables and importables (for any sector). For example, in 1985, the average EPR for exportable manufactures was -3.3 percent while that for importable manufactures was 53.4 percent. In the same year, for exportable agriculture, the average EPR was -6.5 percent while that for importable agriculture was 66.8 percent -- higher even than that for importable manufacturing.

The changes in nominal tariffs and removal of QRs from 1986 to 1988 brought about corresponding changes in the EPR. Estimates are presented in Table 9. While nominal tariffs (book rates) rose, then fell by small amounts in 1986 and 1988, the overall average EPR steadily decreased from 49.0 percent in 1985 to 39.4 percent in 1986 to 36.5 percent in 1988. This trend was exhibited by all sectors except importable fishing whose average EPR went down from 73.8 percent in 1985 to 41.4 percent in 1986 and then went up to 45.8 percent in 1988. In addition to the downward trend in average EPR, there was also a reduction in the standard deviation across all sectors.

Table 7: AVERAGE EPR AND STANDARD DEVIATION BY MAJOR GROUPS
(EXPORTABLES & IMPORTABLES)
Using book rate

Sector Group		1985	SD	1986	SD	1988	SD
03-96	ALL SECTORS	0.2733	0.4069	0.2309	0.3281	0.2254	0.3241
	Exportables	-0.0579	0.0955	-0.0321	0.0911	-0.0325	0.0912
	Importables	0.5447	0.3609	0.4464	0.2931	0.4367	0.2918
03-22	AGRICULTURE,FISHING & FORESTRY	0.0656	0.3147	0.0124	0.1667	0.0142	0.1696
	Exportables	-0.0820	0.0912	-0.0546	0.0908	-0.0546	0.0908
	Importables	0.6804	0.0887	0.2911	0.1132	0.3006	0.1115
03-13	Agriculture	0.1562	0.3450	0.0710	0.1220	0.0710	0.1220
	Exportables	-0.0646	0.0682	-0.0060	0.0049	-0.0060	0.0049
	Importables	0.6683	0.0931	0.2495	0.0605	0.2495	0.0605
19-20	Fishing	0.0757	0.2496	0.0429	0.1494	0.0483	0.1576
	Exportables	-0.0178	0.0178	-0.0095	0.0066	-0.0096	0.0066
	Importables	0.7378	0.0292	0.4144	0.1505	0.4582	0.0932
21-22	Logging & other forestry activities	-0.2001	0.1511	-0.2061	0.1205	-0.2061	0.1205
	Exportables	-0.2296	0.0000	-0.2296	0.0000	-0.2296	0.0000
	Importables	0.5748	0.0000	0.4120	0.0000	0.4120	0.0000
23-27	MINING	0.0281	0.1002	0.0154	0.0040	0.0154	0.0040
	Exportables	-0.0227	0.0027	-0.0261	0.0028	-0.0261	0.0028
	Importables	0.2245	0.0175	0.1758	0.0444	0.1758	0.0444
28-96	MANUFACTURING	0.3797	0.4128	0.3403	0.3363	0.3313	0.3332
	Exportables	-0.0326	0.1008	-0.0039	0.0915	-0.0047	0.0920
	Importables	0.5343	0.3779	0.4692	0.3022	0.4572	0.3022
28-45	Food processing	0.3371	0.4210	0.3118	0.3481	0.2989	0.3491
	Exportables	-0.0842	0.0882	-0.0395	0.0388	-0.0410	0.0399
	Importables	0.4952	0.3864	0.4436	0.3200	0.4264	0.3277
46-50	Beverages and Tobacco	0.4328	0.5150	0.4100	0.4997	0.4100	
	Exportables	-0.0877	0.0558	-0.0878	0.0559	-0.0878	
	Importables	0.9358	0.0609	0.8912	0.1300	0.8912	

continuation of Table 7 ....

Sector Group		1985	SD	1986	SD	1988	SD
51-55	Textile and Footwear	0.2466	0.3786	0.1986	0.2980	0.1986	0.2980
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.0152	0.1024	0.6302	0.0328	0.6302	0.0328
56-58	Wood and wood products	0.1385	0.0497	0.1980	0.0989	0.1980	0.0989
	Exportables	0.1385	0.0497	0.1980	0.0989	0.1980	0.0989
	Importables	--	--	--	--	--	--
59-66	Paper,rubber,leather & plastic products	0.0221	0.3469	0.0120	0.3721	0.7401	0.3419
	Exportables	-0.0699	0.0149	-0.1089	0.0314	-0.1089	0.0314
	Importables	0.9193	0.1929	0.9133	0.2252	0.0327	0.2059
67-75	Chemicals and chemical products	0.6623	0.3940	0.4989	0.3287	0.4989	0.3287
	Exportables	--	--	--	--	--	--
	Importables	0.6623	0.3940	0.4989	0.3287	0.4989	0.3287
76-79	Non-metallic mineral products	0.2883	0.1733	0.3368	0.1411	0.3368	0.1411
	Exportables	-0.0795	0.0011	-0.0815	0.0021	-0.0815	0.0021
	Importables	0.2958	0.1676	0.3444	0.1385	0.3444	0.1385
80-82	Basic metals and metal products	0.0418	0.2449	0.5484	0.2778	0.5484	0.2778
	Exportables	-0.0434	0.0000	-0.0783	0.0000	-0.0783	0.0000
	Importables	0.0567	0.2166	0.5595	0.2673	0.5595	0.2673
83-91	Mach. incl. elec. eqpt,transport eqpt.	0.4839	0.4633	0.3398	0.2911	0.3398	0.2911
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.6085	0.4431	0.4286	0.2661	0.4286	0.2661
92-96	Miscellaneous manufactures	0.4677	0.3922	0.3745	0.2834	0.3745	0.2834
	Exportables	0.0041	0.0000	-0.0185	0.0000	-0.0185	0.0000
	Importables	0.6609	0.3817	0.5382	0.1504	0.5382	0.1504

* The EPRs are weighted with FTVA x Qb
SD - Standard Deviation

Source: Tariff Commission

Table 8: (1+EPR) INDEX BY MAJOR GROUPS
1985, 1986, 1988
Using book rate

		1985	1986	1988
	ALL SECTORS	110.13	114.93	114.42
	Exportables	81.48	90.37	90.34
	Importables	133.60	135.05	134.15
AGRICULTURE,	FISHING & FORESTRY	92.16	94.53	94.70
	Exportables	79.40	88.27	88.27
	Importables	145.34	120.55	121.44
AGRICULTURE		100.00	100.00	100.00
	Exportables	80.90	92.81	92.81
	Importables	144.29	116.67	116.67
FISHING		93.04	97.38	97.88
	Exportables	84.95	92.48	92.47
	Importables	150.30	132.06	136.15
FORESTRY		69.18	74.13	74.13
	Exportables	66.63	71.93	71.93
	Importables	136.20	131.84	131.84
MINING		88.92	94.81	94.81
	Exportables	84.53	90.93	90.93
	Importables	105.91	109.79	109.79
MANUFACTURING		119.33	125.14	124.30
	Exportables	83.67	93.01	92.93
	Importables	132.70	137.18	136.06

Agriculture = 100

Table 7: AVERAGE EPR AND STANDARD DEVIATION BY MAJOR GROUPS
(EXPORTABLES & IMPORTABLES)
Using price comparison

Sector Group		1985	SD	1986	SD	1988	SD
03-96	ALL SECTORS	0.4984	1.1655	0.3937	0.7564	0.3649	0.7084
	Exportables	-0.0691	0.0594	-0.0411	0.0325	-0.0414	0.0327
	Importables	1.0226	1.4507	0.8072	0.9053	0.7514	0.8806
03-22	AGRICULTURE,FISHING & FORESTRY	0.0900	0.3737	0.0503	0.2616	0.0521	0.2632
	Exportables	-0.0849	0.0967	-0.0570	0.0967	-0.0570	0.0967
	Importables	0.7962	0.2088	0.4833	0.2702	0.4928	0.2627
03-13	Agriculture	0.2073	0.4338	0.1510	0.2088	0.1510	0.2088
	Exportables	-0.0663	0.0685	-0.0870	0.0056	-0.0870	0.0056
	Importables	0.8224	0.2323	0.5061	0.2975	0.5061	0.2975
19-20	Fishing	0.0757	0.2496	0.0429	0.1494	0.0483	0.1576
	Exportables	-0.0178	0.0178	-0.0095	0.0066	-0.0096	0.0066
	Importables	0.7388	0.0293	0.4145	0.1506	0.4583	0.0933
21-22	Logging & other forestry activities	-0.2163	0.1585	-0.2226	0.1271	-0.2226	0.1271
	Exportables	-0.2488	0.0000	-0.2488	0.0000	-0.2488	0.0006
	Importables	0.5769	0.0000	0.4134	0.0000	0.4134	0.0000
23-27	MINING	-0.0028	0.1435	-0.0199	0.1240	-0.0199	0.1240
	Exportables	-0.0847	0.0217	-0.0898	0.0225	-0.0898	0.0225
	Importables	0.2419	0.0168	0.1861	0.0491	0.1861	0.0491
28-96	MANUFACTURING	0.7335	1.5895	0.6017	1.0604	0.5549	1.0000
	Exportables	-0.0445	0.1113	-0.0119	0.0989	-0.0128	0.0994
	Importables	1.0727	1.8010	0.8693	1.1724	0.8024	1.1194
28-45	Food processing	0.3449	0.4685	0.3166	0.3851	0.3029	0.3861
	Exportables	-0.0985	0.0995	-0.0495	0.0405	-0.0511	0.0412
	Importables	0.5895	0.4482	0.4525	0.3668	0.4343	0.3741
46-50	Beverages and Tobacco	0.4528	0.5611	0.4286	0.5416	0.4286	0.5416
	Exportables	-0.0921	0.0616	-0.0922	0.0617	-0.0922	0.0617
	Importables	1.0223	0.0727	0.9729	0.1273	0.9729	0.1273

continuation of Table 4....

Sector Group		1985	SD	1986	SD	1988	SD
51-55	Textile and Footwear	0.7025	1.3007	0.6189	1.1648	0.2241	0.3798
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	2.6232	1.1649	2.2911	1.1176	0.8368	0.1689
56-58	Wood and wood products	0.1582	0.0628	0.2177	0.1149	0.2177	0.1149
	Exportables	0.1582	0.0628	0.2177	0.1149	0.2177	0.1149
	Importables		--	--	--	--	--
59-66	Paper,rubber,leather & plastic products	2.4845	3.5983	1.3938	1.6768	1.0789	1.4662
	Exportables	-0.0699	0.0149	-0.1089	0.0314	-0.1089	0.0314
	Importables	2.8958	3.7407	1.6922	1.6828	1.3148	1.4969
67-75	Chemicals and chemical products	1.5274		1.1977		1.1977	
	Exportables	--	--	--	--	--	--
	Importables	1.5274		1.1977		1.1977	
76-79	Non-metallic mineral products	1.5988	0.7989	1.5918	0.4558	1.5918	0.4558
	Exportables	-0.0795	0.0011	-0.0815	0.0021	-0.0815	0.0021
	Importables	1.6439	0.7688	1.6367	0.3679	1.6367	0.3679
80-82	Basic metals and metal products	1.7979	1.7878	0.5538	0.3281	0.5538	0.3281
	Exportables	-0.0434	0.0000	-0.0783	0.0000	-0.0783	0.0000
	Importables	1.8455	1.7849	0.5693	0.3168	0.5693	0.3168
83-91	Mach. incl. elec. eqpt,transport eqpt.	2.3961	6.1118	1.6947	4.1428	1.6947	4.1428
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	4.8589	7.5121	2.8651	5.0659	2.8651	5.0659
92-96	Miscellaneous manufactures	1.6738	1.1246	0.5872	0.3447	0.5872	0.3447
	Exportables	-0.0089	0.0000	-0.0245	0.0000	-0.0245	0.0000
	Importables	3.4863	--	1.0827	--	1.0827	--

* The EPRs are weighted with FTVA x Qb
SD - Standard Deviation

Source: Tariff Commission

Table 5: (1+EPR) INDEX BY MAJOR GROUPS
1985, 1986, 1988
Using price comparison

	1985	1986	1988
ALL SECTORS	123.45	121.09	118.58
Exportables	77.11	83.31	83.28
Importables	167.53	157.01	152.16
AGRICULTURE, FISHING & FORESTRY	90.28	91.25	91.41
Exportables	75.80	81.93	81.93
Importables	148.78	128.87	129.70
AGRICULTURE	100.00	100.00	100.00
Exportables	77.34	86.27	86.27
Importables	150.95	130.85	130.85
FISHING	89.10	90.61	91.08
Exportables	81.36	86.06	86.05
Importables	143.96	122.89	126.70
FORESTRY	64.91	67.54	67.54
Exportables	62.29	65.33	65.33
Importables	130.61	122.80	122.80
MINING	82.66	85.15	85.15
Exportables	75.81	79.08	79.08
Importables	102.87	103.05	103.05
MANUFACTURING	143.58	139.16	135.09
Exportables	79.14	85.85	85.77
Importables	171.68	162.41	156.59

Agriculture = 100

Protection is a relative concept. More significant than the absolute EPR level is what happens in the EPR in one sector relative to another. This is indicated in Table 8 which shows the movement in the (1+EPR) index by major sectors, with the index for agriculture set equal to 100. The index rose for manufacturing from 119.3 in 1985 to 125.1 in 1986, then slightly went down but still at a higher level than in 1985 to an index of 124.3 in 1988. This seems to indicate a worsened relative protection for agriculture with the tariff changes. In 1985, importable agriculture had the highest index at 144.3, higher even than the index for importable manufacturing whose index was 132.7. By 1988, the index for importable agriculture has gone down to 116.7 while that for importable manufacturing has gone up to 136.1.

Thus, while the overall downward trend appears to be in the right direction, the relative changes, specifically between agriculture and manufacturing, seems to be contrary to the movement towards more uniform protection, not to mention a rural-based development strategy.

While the implication of the changes in the book rates on the relative protection between agriculture and manufacturing is negative, there was, at least, some improvement in the relative indices between importables and exportables. The index was 81.5 for exportable and 133.6 for importables in 1985. By 1988, the indices were 90.3 and 134.2 for exportables and importables, respectively.

The above estimates are based on book tariff rates alone and do not present a complete picture. As mentioned above in the discussion of nominal average tariffs, such results could be expected as the changes in the book rates were primarily intended as a temporary adjustment measure to accompany import liberalization. The next two tables attempt to capture the overall effect of both the tariff changes and the import liberalization episodes from 1986 to 1988.

As expected, the EPR measure using price comparisons yielded higher estimates of protection. In 1985, manufacturing received the highest effective protection rate at 73.4 percent, more than three times that for agriculture at 20.7 percent and almost ten times that for fishing which received only 7.6 percent. Thus, the gaps are much higher than that implied by the book tariff rates. The divergence between importables and exportables is even higher. The average EPR for importables was 102.3 percent while that for exportables was -6.9 percent.

While book rates indicate that importable agriculture received higher protection than importable manufacturing, the opposite is indicated using price comparisons. Importable agriculture received an EPR of around 82.2 percent, while importable manufacturing enjoyed an EPR of around 107.3 percent.

Thus, while both sectors received additional protection from non-tariff measures (NTMs, mainly import licensing), importable manufacturing depended much more heavily on these NTMs.

The variation in EPR within the manufacturing sector itself is perhaps the largest, ranging from -9.8 percent for exportable food processing to 405.1 percent for importable machinery including electrical and transport equipment.

The tariff changes and the removal of QRs for a number of items from 1986 to 1988 brought about changes in nominal tariffs estimated in Table 5 and consequently on EPR. As shown in Table 9, the average EPR also went down steadily, as in the case of using book rates alone, from 49.0 percent in 1985 to 39.4 percent in 1986 to 36.5 percent in 1988. The decline was exhibited in all importable sectors. At the same time, the EPR for exportables improved with the removal of export taxes in 1986. The gap between importables and exportables thus narrowed down to 75.1 percent and -4.1 percent respectively for the two sectors.

To illustrate more clearly the changes in EPR in relative terms, Table 10 presents the (1+EPR) index by major sectors for 1985, 1986 and 1988 as was done in Table 8 for EPR using book rates. This time, in contrast with the results using book rates alone, the EPR index relative to agriculture declined for manufacturing, from 143.6 in 1985 to 139.2 in 1986 to 135.1 in 1988 (Agriculture = 100).

The average and aggregate figures could hide a lot of variation and contrary movements. Still, the results show that the import liberalization episodes from 1986 to 1988 reduced the disparities in EPRs across sectors. Although not insignificant, the impact however was not large enough to substantially alter the inherent biases of the protection structure.

These findings should throw some light on the recent debate between the Department of Trade and Industry and the Department of Agriculture regarding the policy bias against the agricultural sector. It is clear from the estimates that, on average, such a bias exists. Specifically, in 1988, the (1 + EPR) index (using price comparison) for manufacturing is estimated to be 135.1, with agriculture set to 100. This means that, on average, protection to manufacturing (derived from tariff and import controls) is roughly 35 percent higher than that for agriculture. These are average figures, however, hiding a lot of variation. Hence, it would not be entirely correct to conclude that all of manufacturing is favored. Many sectors even within manufacturing, notably export sectors, are penalized. Or conversely, only certain sectors within manufacturing are favored by trade (and industrial) policy.

C. Implications of Some Proposed Policy Changes

Trade liberalization, thus far, remains to be the stated policy direction under the Aquino Administration. Debates abounded regarding its merits, its timing, its sequencing and phasing. Conflicting views emerged not only between the business sector and the government, but also within the business and government sectors themselves. Some compromises were made. First and foremost, the scheduled import liberalization was delayed. Second, the sequencing of commodities to be liberalized tended to favor some sectors over others. Third, tariffs were adjusted to replace removed quantitative restrictions to some extent. Fourth, some tariffs on inputs were reduced. Still, although perhaps not by as much as what the number indicated, trade liberalization proceeded.

This section aims to examine some proposed policies, adopted or otherwise, which could be suggestive of the likely policy direction the government would take. The process of trade liberalization is by no means complete. And whatever headway which might have been achieved has been hard-won. It would be extremely detrimental if a policy reversal would occur now, when the country has paid for much of the costs but not as yet received even half of the gains from trade liberalization. It is thus important to see which direction the government is likely to take.

Proposed policy changes in the area of trade could generally be grouped as follows:

a. the reduction of the minimum tariff rate from 10 percent to five percent or even zero for "extremely meritorious" cases;

b. raising the maximum rate above 50 percent;

c. those contained in the IMF letter of intent; and

d. Senate Bill No. 846 introduced by Senator Guingona restoring import restrictions and imposing 60 percent tariffs on liberalized items.

The first has been adopted although it has not yet been generally implemented. The Tariff Commission has already been deluged with applications for reducing tariffs so that the situation increasingly calls for a review of what really is the tariff policy of government. Clearly the move to reduce minimum tariffs without corresponding reduction in high tariffs goes against the stated general direction of moving towards a more uniform rate. It would generally increase the EPR dispersion. And it would increase inducements for import-dependent import substituting industries. Already, those industries using inputs taxed at low duties (i.e., duties below the degree of under-valuation of foreign exchange) receives an implicit subsidy and

would naturally prefer imported inputs over local substitutes. Further reducing the minimum rate increases this subsidy and aggravates the bias against local intermediate input substitute. Furthermore, reducing the minimum rate means less revenues which, given a cash strapped government, implies a need to raise taxes elsewhere.

The development in the second item, raising the maximum rate above 50 percent, is not yet in the same stage as the first. There are clamors from certain industry groups for increasing the maximum tariff rate. An element in the Guingona Bill seeks a 60 percent tariff on liberalized items. Still, proposals have fortunately been, so far, nipped in the bud.

Perhaps the most significant, as it carries greatest weight in terms of actually being implemented, is the part on trade policy contained in the IMF letter of intent. The IMF letter of intent upholds the policy direction of greater trade liberalization but delays the schedule up to 1994. There are currently 579 items still subject to trade control. These have been grouped according to List A or items scheduled to be liberalized, List B or items for review and List C or items for continued regulation (See Table 11). The IMF letter of intent specified the number of items to be liberalized by certain dates.

The delay in itself should not cause too much concern --- if investors perceive a firm commitment on the part of government to see through the reforms. A more disturbing item in the IMF letter of intent, however, is the clause which requires importers to submit to the Department of Trade and Industry "at the same time those import documents that normally have to be submitted to the Central Bank before letters of credit can be opened, indicating the item, value..." and other information, ostensibly to improve the data base and strengthen efforts against smuggling. It is easy to see how, potentially, such procedure could be used to erect non-tariff barriers. It remains to be seen how the Department would administer this power.

The Senate Bill No. 846 authored by Senator Guingona which seeks to restore all import restrictions and impose 60 percent tariffs on liberalized items, if passed, would be a clear negation of present policy. The probability that the Bill would eventually be passed seems low. Still, such a bill is indicative of the policy bias in the Senate.

Given the unavoidable adjustment costs attendant to trade liberalization, it has understandably been a controversial and difficult process. It is, however, unfortunate that some sectors, even of government (and perhaps especially so because of these sectors in government), simply view trade liberalization as merely an imposition of IMF. This non-issue has contributed

Table 11. REMAINING PRODUCTS SUBJECT TO QUANTITATIVE RESTRICTIONS
1988

LIST	PRODUCT GROUP	NO. OF ITEMS	REGULATING AGENCY	TYPE OF REGULATION
A.	~~Brand new trucks and engines, special purpose vehicles~~	~~7~~	~~DTI~~	~~Program participants allowed~~
	~~Games and amusements~~	~~1~~	~~GB~~	~~Banned~~
	Others (game cocks, telescopic sights, stamps, swords, title certificates, advertising matter; tie clips, gun stocks)	1	CB	Banned
	Nonmetric measuring devices	1	Commission Bureau of Product Standards	Nonlimiting--to check if imports use the metric system
		~~2~~		
	TOTALS	~~10~~		
B.	Animal and meat products	31	BAI	Meat processors allowed
	Coffee	9	CB	Bannned
	Fish and fish preparations	36	BFAR	Banned
	Sugar	3	NASUTRA	Only the government may import
	Fertilizers	19	FPA	Accredited importers allowed
	Potatoes, onions, garlic, cabbage	4	CB	Banned; BPI allows these for seedling purposes
	Cement & cement products	2	BOI	Ration'n Program participants allowed to import raw materials; government import finished product
	Antibiotics	23	DOH	Regulation is meant to monitor the grades imported
	Vessels and appurtenances	14	MARINA	Regulation is meant to monitor the quality of imports
	Consumer durables/electric products	33	BOI	Program participants allowed
	Raw materials, parts and components of CEP's	73	BOI	Program participants allowed
	Trucks and buses	10	BOI	Program participants allowed
	Motorcycles	2	BOI	Program participants allowed
	Car and jeeps	10	BOI	Program participants allowed
	Used tires	2	BOI	Banned
	Newsprint	1	BOI	Imports allowed depending on PICOP's capability
	Diesel and gasoline engines	26	BOI	Program participants allowed
	Used clothing	1		
	Refined petroleum products	15	ERB	Imports of grades not locally available are allowed
	TOTALS	455		

continuation of Table 11 ....

LIST	PRODUCT GROUP	NO. OF ITEMS	REGULATING AGENCY	TYPE OF REGULATION
C.	Used tires	6	BOI	Banned
	Dangerous drugs ()No specific PSCC lines since these are under generic names)		DOH	Banned
	Chemicals for explosives	18	PC-FEU	Legitimate users allowed
	Other chemicals (acetic anhydride, sodium cyanide, chlorofluorocarbon)	3	DOH	Legitimate users allowed
	Color reproduction machines	3	CB	Banned
	Used vessels and warships	28	MARINA	Regulation is meant to check quality of imported vessels
	Ammunition and firearms	28	PC-FEU	Legitimate users
	Animals and animal effects	40	BAI	Livestock, meat processors
	Pesticides	7	FPA	Legitimate users allowed
	Rice and corn	12	NFA	Imported only by the government
	TOTALS	114		

greatly to clouding the real issues and weaken the resolve of government to implement this reform.

The major gains from trade liberalization are dynamic in nature and long-run in coming. Adjustment costs, the displacements, would come first. For trade liberalization to succeed, it cannot be overemphasized that a firm commitment to the reform is necessary on the part of government.

III. THE ROLE OF EXCHANGE RATE POLICY

Given the external debt situation, the Philippines' best recourse is to pursue an export-led economic growth. Otherwise, growth would eventually be constrained by balance-of-payments difficulties. This places a central role on the exchange rate policy in industrial development.

The exchange rate policy in the past has been one of penalty, not protection, to the export sector. 6/ It added to the penalty already received by exports from the protection system by fixing the rate at unrealistically low levels. In the 1950s and the 1960s, this was made possible by import controls and high tariffs, at least until BOP difficulties forced a devaluation. Beginning in the early 1970s, the exchange rate was supposedly allowed to float but it was still effectively managed by the Central Bank. Foreign borrowing, which started to grow in the 1970s, and to burgeon in the 1980s, propped up the peso, hiding an underlying BOP disequilibrium. When the 1983-84 BOP crisis erupted, the peso, again, had to be devalued drastically. The Philippines, thus, has a history of trying to maintain a fixed exchange rate until extreme BOP difficulties made it impossible to do so.

With unrealistically low (real) exchange rate, exports were effectively penalized, as their returns were reduced by the lower peso per unit of foreign exchange. Nontradables, on the other hand, were rewarded. These are goods or services which can neither be exported nor imported -- naturally (because of prohibitive transport costs) or artificially (because of government policy manifested through an import prohibition). Most especially rewarded are nontradables dependent on imports for their inputs. For these goods, the low exchange rate has no penalty on the output price (as they are nontraded) while their imported inputs come in at effectively lower prices. To this group would belong many commodities protected by import bans.

6/ It also penalized efficient but neglected import substitutes (those which received low effective protection).

If one would rank commodity groups from most rewarded to most penalized by a low exchange rate, at the head of the list would be the import-dependent "nontradables." Next would be local production of high tariff (high EPR) items and those that are importable but subject to import control. In the middle would be "true" nontradables. The next group would be composed of neglected import substitutes (e.g., some intermediate and capital goods) where imports are allowed at low duties. The most penalized are exports (to this would belong agriculture which is a net exporter).

The Philippines tried to maintain a fixed nominal exchange rate for periods of time, until it was forced to devalue. With higher domestic inflation relative to the world, this meant a real appreciation of the peso. Table 12 presents the Real and Nominal Effective exchange rate 7/ indices from 1972 to 1988 (and January, February 1989 estimates).

Table 12 shows the real effective exchange rate index (REERI) falling until 1982, indicating a real appreciation of the peso. With the huge devaluation in 1983-84, it rose to an index above 100 but fell again in 1985 with inflation rates that reached as high as 50 percent. The REERI rose again from 1986 to 1988.

It is interesting to note how these changes in the REERI affected exports. In Figure 1, the movement of the changes in REERI is plotted in the upper graph while the movement in the changes in exports is plotted in the lower graph. The graphs show an almost synchronized movement between REERI and exports.

Going back to Table 12, there seems to be a positive movement in the REERI from 1986-1988. This apparent depreciation of the peso, however, was brought about by world currency realignment -- with the US dollar, during the period, depreciating against the major world currencies. Being almost pegged to the US dollar, the peso depreciated along with it. However, in 1989, especially the latter months, the US dollar is again gaining strength, and, indeed, there appears to be a downward trend in REERI in January and February 1989.

The more revealing indicator of the competitiveness of the peso would, however, be how the peso fared with the currencies of our major competitors, specifically, Thailand, Taiwan, S. Korea, Singapore and Hongkong. This is shown by the movement in the

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7/ The nominal effective exchange rate index is a trade weighted average of the peso-exchange rate index of major trading partners. The real effective exchange rate index adds to changes in the nominal effective exchange rate index the domestic inflation net of inflation rate of respective trading partners.

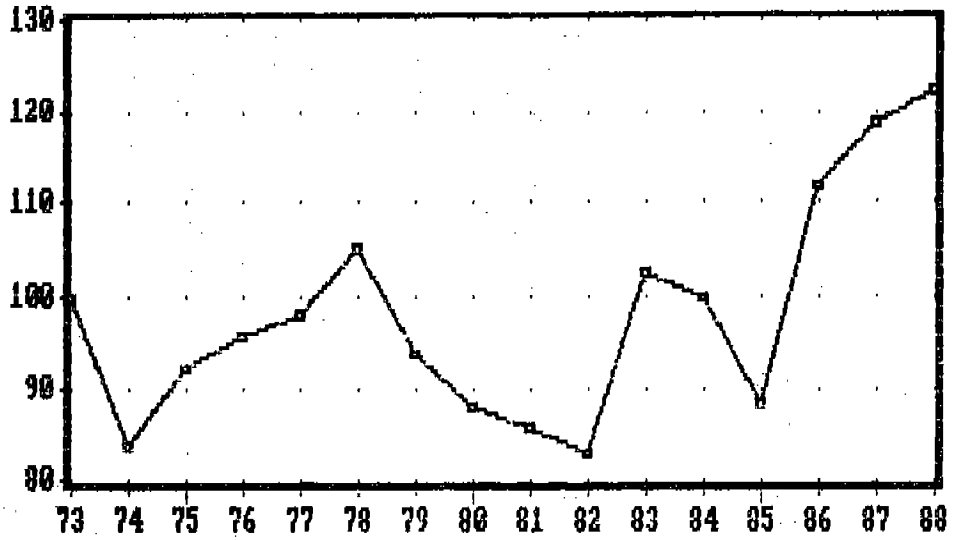
Table 12: NOMINAL AND REAL EFFECTIVE EXCHANGE RATE INDEX (1972-1988)

Year	Nominal Effective Exchange Rate Index (%)	Real Effective Exchange Rate Index (%)
1972	100.00	100.00
1973	108.89	105.01
1974	107.67	87.88
1975	114.71	96.79
1976	115.78	100.43
1977	119.00	102.94
1978	130.01	110.60
1979	130.03	98.41
1980	131.52	92.51
1981	133.91	90.21
1982	136.18	87.30
1983	174.27	107.49
1984	254.57	105.04
1985	276.93	92.80
1986	348.12	117.64
1987	373.49	124.76
1988	406.36	128.67
1989		
Jan.	354.32	126.14
Feb.	353.39	125.99

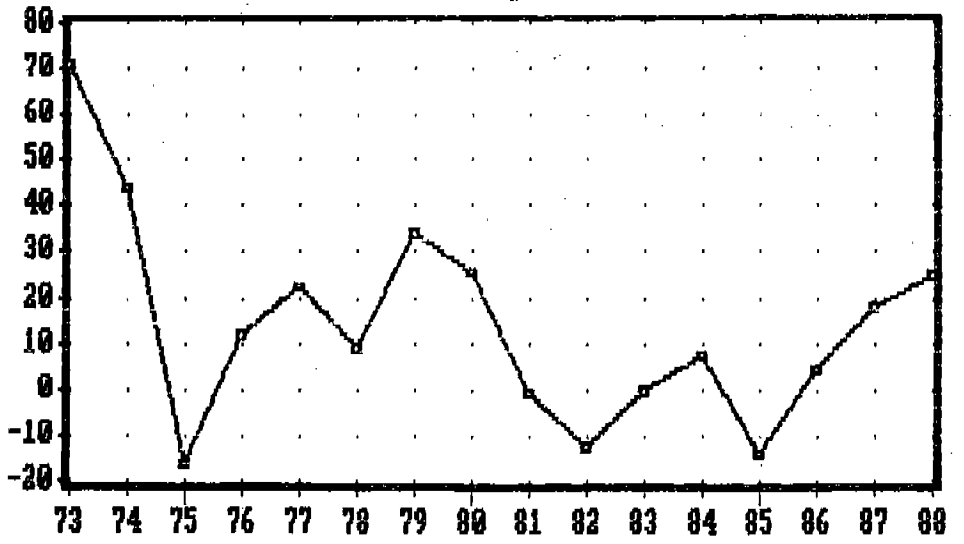
*w - 15-year average.

Sources:
International Financial Statistics, IMF.
Key Indicators of DMCs, ADB.

FIGURE 1



Real Effective Exchange Rate Index (In %)



Annual Rate of Change in Exports (In %)

real exchange rate index between the peso and the currencies of these countries as presented in Table 13.

Table 13 shows the peso/won real exchange rate index rising in 1983-84 but falling again in 1985-1986. Hence, the peso became relatively cheaper in 1983-84 only to lose some competitiveness again against the Korean won in 1985-1986. The index started to rise again after 1986 until 1988. The early months of 1989, again however seems to indicate a downward trend. The peso/HK$ real exchange rate index has fallen from the 1973 index but at least has been maintained in the past three years. The peso/baht real exchange rate was falling from 1972 to 1982, but the index rose in 1983-84. Then it started falling again, continuously until 1989. Thailand appears to have used the exchange rate more aggressively. Taiwan, on the other hand, with its long-running BOP surplus, has been under pressure to revalue its currency. Thus, the peso/Taiwan dollar real exchange rate index has risen substantially since 1973. The movement of the peso against the Singapore dollar is similar to that as the peso/won index.

Hence, in general, the peso has recently become more competitive against the won, the Singapore dollar and Taiwan dollar. But it has lost competitiveness against the baht and Hongkong dollar.

The Philippine exchange rate policy has, thus, not changed much. After a series of de facto devaluations in 1983-84, it has moved closely with the US dollar. The Philippines has not used the exchange as aggressively as Thailand, for example. A more aggressive exchange rate policy could have worked very well as a complementary measure to accompany import liberalization.

IV. THE 1987 OMNIBUS INVESTMENT CODE

One of the priority acts of the Aquino Government was the passing of the 1987 Omnibus Investment Code (1987 OIC), intended primarily to attract new investment, foreign or local, particularly in pioneering industries. This section aims to assess the provisions of the Code with respect to its effectivity as a tool for industrial development and its consistency with other national objectives.

A cursory examination of the OIC suggests an attempt on the part of the government to replicate Japan's highly successful bid for industrialization after the war. Japan's strategy for industrial development during the postwar era included, among others, the following elements:

a. a relentless export promotion drive,

b. import and foreign investment controls,

Table 13: NOMINAL EXCHANGE RATE AND REAL EXCHANGE RATE INDEX:
PHILIPPINES vs. KOREA, SINGAPORE, THAILAND, TAIWAN, & HONGKONG
1972-1989*

YEAR	Korea		Singapore		Thailand		Taiwan		HongKong	
	Nominal	Real (%)	Nominal	Real (%)	Nominal	Real (%)	Nominal	Real (%)	Nominal	Real (%)
1972	0.016990	100.00	2.3747	100.00	0.3207	100.00	0.1666	100.00	1.1888	100.00
1973	0.017000	88.95	2.7649	120.85	0.3277	103.61	0.1766	100.03	1.3118	114.46
1974	0.016800	80.26	2.7855	115.28	0.3332	95.89	0.1786	115.34	1.3370	94.86
1975	0.015000	85.28	3.0565	120.11	0.3557	99.45	0.1907	119.64	1.4675	98.84
1976	0.015400	95.41	3.0113	108.62	0.3647	100.22	0.1958	118.55	1.5171	99.63
1977	0.015300	96.87	3.0347	104.36	0.3629	99.21	0.1948	116.95	1.5079	102.03
1978	0.015219	103.05	3.2391	108.44	0.3622	99.41	0.1988	117.25	1.5722	99.39
1979	0.015243	102.64	3.3928	97.58	0.3613	98.27	0.2047	118.11	1.4747	86.18
1980	0.012365	94.03	3.5078	91.38	0.3668	93.05	0.2086	113.09	1.5094	85.81
1981	0.011600	95.93	3.7393	93.03	0.3621	91.48	0.2144	119.85	1.4125	81.19
1982	0.011681	93.86	3.9907	93.34	0.3713	90.83	0.2183	113.45	1.4865	78.30
1983	0.014270	108.36	5.2591	114.81	0.4832	111.14	0.2774	134.30	1.5280	84.90
1984	0.020719	105.20	7.8285	116.86	0.7064	107.27	0.4217	136.47	2.1360	82.88
1985	0.021387	86.91	8.4570	99.89	0.6851	82.72	0.4669	119.37	2.8830	95.33
1986	0.023128	95.29	9.3721	107.72	0.7793	94.92	0.5408	137.93	2.6136	88.44
1987	0.025180	103.15	9.7769	108.78	0.8889	96.36	0.6514	161.86	2.6694	91.87
1988	0.028989	117.44	10.4904	108.92	0.8342	94.26	0.7401	171.84	2.7020	92.83
Dec.	0.031280	125.18	10.9938	110.54	0.8497	92.74	0.7599	199.00	--	--
1989	0.031860	126.08	11.0247	106.43	0.8428	91.82	0.7835	172.88	2.7413	94.31
Jan.	0.031600	123.26	11.0788	106.13	0.8452	88.11	0.7767	195.73	2.7372	--
Feb.	0.031869	124.27	11.0852	105.19	0.8412	88.47	0.7781	197.01	2.7358	--

* Preliminary estimate only (Jan.-Feb. 1989)
-- Monthly statistics not available
base year - 1972

Source: International Financial Statistics (IFS)
Key Indicators of DMCs of ADB
DER, Central Bank of the Philippines

c. focus on heavy industries like petrochemicals and steel,

d. reliance on subcontracting,

e. cartelization designed to harness economies of scale, and

f. undervaluation of the yen.

A very powerful Ministry of International Trade and Industry (MITI) was tasked accordingly to provide "administrative guidance" to industry. The MITI held close consultation with the business associations and decisions were often made through painstaking efforts at building consensus.

There are traces, in varying degrees, of these elements in the OIC which basically embodies the strategy for industrial development adopted by the Department of Trade and Industry (DTI). For example, with regards to the first element, investment incentives first started to be institutionalized in 1970 with the enactment of the Export Incentives Act (RA 6135). Since then, the Incentives Act has been amended and codified three times over, culminating in the Executive Order 226 (EO 226) or the 1987 Omnibus Investment Code. EO 226 superseded Batas Pambansa 391 (BP 391), passed in 1983, which introduced radical changes in the form of incentives. During all these times, the emphasis on exports waned, then waxed, then waned again. Nevertheless, although the export promotion drive could not seriously compare with that of Japan, there has always been attention given to exports by the government since 1970.

With respect to the second element, tariffs and import controls have been used since the 1950s to protect and promote industries. Even now, with programs for trade liberalization, they continue to be a major tool for industrial promotion. In particular, all outputs covered by the DTI's progressive manufacturing programs are subject to import bans. The DTI also has influence over where foreign investment should go and how much foreign equity participation could be allowed.

In the early 1980s, there were plans for 11 major industrial projects. Fortunately for the Philippines, only one pushed through. The DTI has ongoing progressive manufacturing programs intended to be a linkage to, and a first step towards heavy industries. Also, through its Investment Priorities Plan (IPP) listing of industries eligible for incentives, it exercises a choice of what it considers strategic industries.

Expansion of subcontracting activity is among the goals of the DTI. The Bureau of Small and Medium Scale Industry has programs targetted on this. There has been little success in this area, however. The OIC is particularly silent as to how it

would be promoted. It is not even apparent whether some provisions of the OIC would not be biased against it.

Penultimately, the fifth element listed is presumably the rationale for adopting the measured capacity concept.

Clearly, however, the strategy which worked well with Japan was not effective for the Philippines. Numerous reasons could be found for this failure. One is that although Japan imposed strict import controls, all the other incentives were geared towards export promotion. This more than made up for the export penalty from protectionist policies, resulting in an export promotion bias rather than on import substitution bias which the Philippines, on the other hand, has had since the 1950s. Also, while Japan kept the yen undervalued, (item f) the Philippines, in contrast, has protected its domestic currency.

Many other elements and institutional factors, of course, contributed to Japan's success. Perhaps one of the most important, which probably made these elements, institutions and mechanisms work so well for Japan, is the strong sense of national interest on the part of the Japanese elite, and thereby its commitment to national development. At the same time, Japan's labor force is well known for its dedication and loyalty to the establishment.

Thus, perhaps, the root cause of the difference in performance lies in the presence of these other elements in Japan which the Philippines sorely lacked. These are factors which prevented the abuse of such power and role played by government. These are factors which complemented well the market forces in revealing Japan's real comparative advantage.

What the lessons from the past indicate is that it is best for the Philippines to place greater reliance on market forces. That the role of the government is to remove distortions which prevent the market from working efficiently.

Thus, the 1987 OIC (EO 229) should be examined and analyzed by how it influences market signals, thereby providing "guidance" to investors to allocate resources efficiently.

The changes in the investment incentives introduced under BP 391 in 1983 were sweeping and innovative. As a starting point in evaluating the EO 226, it is very instructive to compare EO 226 with BP 391. This is done very concisely in Manasan (1989).

Manasan (1989) made a comparison of the incentives granted under BP 391 and EO 226. Her findings are summarized and presented in Table 14. EO 226 replaces the provisions on tax credit on net value earned and net local content by the income tax holiday for a duration ranging from three to eight years. Also, EO 226 allows both exporting and non-exporting firms duty

Table 14: COMPARISON OF INCENTIVES UNDER BP 391 AND EO 226

Incentive	BP 391				EO 226			
	Domestic Producer		Export Producer		Domestic Producer		Export Producer	
	Pioneer	Non-Pioneer	Pioneer	Non-Pioneer	Pioneer	Non-Pioneer	Pioneer	Non-Pioneer
1. Exemption from duties and taxes on imported capital equipment			100%	100%	100%	100%	100%	100%
2. Deferment of duties and taxes on imported capital equipment, to be repaid within 5 years	100%	50%	N/A	N/A	N/A	N/A	N/A	N/A
3. Tax credit on domestic capital equipment equivalent to duties and taxes on similar foreign equipment			100%	100%	100%	100%	100%	100%
4. Tax credit on domestic capital equipment to be repaid within 5 years	100%	100%	N/A	N/A	N/A	N/A	N/A	N/A
5. Tax credit on net value earned for five years	10%	5%	10%	5%	N/A	N/A	N/A	N/A
6. Tax credit on net local content for five years			10%	10%	N/A	N/A	N/A	N/A
7. Tax holiday	N/A	N/A	N/A	N/A	6-8 years a/	4-7 years a/	6-8 years a/	4-7 years a/
8. Net operating loss carry over	Yes	Yes	Yes	Yes	No	No	No	No
9. Deduction from taxable income of 50% of incremental labor expense for 5 years	No	No	No	No	Yes b/	Yes b/	Yes b/	Yes b/

a/ These are applicable to new projects. Expanding firms are entitled to three year tax holiday. Existing firms are not entitled to the tax holiday at all.

b/ Redundant for firms enjoying tax holiday.

Source: Table in Manasan (1989).

free importation of capital equipment. This incentive was granted only to exporting firms under BP 391. 8/ Manasan thus notes that BP 391 provided more benefits to exporters than to non-exporters while the incentives under EO 226 are perfectly neutral with respect to these two groups of producers.

Manasan (1989) also estimated the impact on the internal rate of return (IRR) of the more important provisions of BP 391 and EO 226 on hypothetical BOI registered firms. Her results are reproduced in Tables 15 and 16. Table 15 shows that the increment on the IRR of exporters is three to four times as large as that of non-exporters under BP 391 while Table 16 indicates that EO 226 differentiates between pioneer and non-pioneer enterprises only. Consequently, the inducements given to exporters are reduced by half while the benefits made available to non-exporters almost doubled under the new Investment Incentives Code.

BOI incentives can be justified as a means to provide compensating adjustments to counteract the bias against exports of the prevailing trade regime. 9/ The anti-export bias arising from the protection structure could be compensated on two levels:

(1) giving export producers access to imports and world market prices, and

(2) evening protection between exporters and domestic market producers by granting exporters the same level of protection (measured, for example, by EPR) accorded to domestic market producers (import substituting industry).

The first adjustment is provided for by both BP 391 and EO 226. These are still inadequate, however, since indirect exporters are not reached. BP 391 makes a partial adjustment in

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8/ Under BP 391, pioneer non-exporting firms can only defer payment of all duties and taxes on capital equipment for a period of five years. Non-pioneer non-exporting firms may defer only up to 50 percent of these taxes for a period of five years.

9/ Others prefer to view BOI incentives as protection to infant industries. While a case may be made for assisting infant industries, the implementation starting from selecting which "infants" to promote, is administratively difficult. This arises mainly from the extreme difficulty in predicting which "infants" have potential comparative advantage and government intervention could only very likely introduce more distortions. Ideally, then, if the government is to grant incentives under the infant industry case, it should choose very judiciously only a limited number of industries at a time using the most neutral (non-distorting) policy measures.

Table 15: CHANGE IN THE INTERNAL RATE OF RETURN OF HYPOTHETICAL BOI REGISTERED FIRMS UNDER BP 391 a/
(In Percentage Points)

	Exporting				Non-Exporting			
	Non Pioneer		Pioneer		Non Pioneer		Pioneer	
	n=10	n=20	n=10	n=20	n=10	n=20	n=10	n=20
1. Exemption/ Deferment of duties on capital b/	3.5	2.5	3.5	2.5	.5	.25	1.0	.5
2. Tax Credit on net value earned	2.25	.5	3.5	1.75	2.25	.5	3.5	1.75
3. Tax Credit on net local content	9.0	4.75	9.0	4.75	-	-	-	-
4. Total	15.75	8.75	17.0	10.0	3.75	1.75	5.5	3.25

a/
Change in IRR is computed relative to IRRo = 10%

b/
Computed based on t_k = .2 and VAT where t_k is tariff on capital equipment.

Source: Table in Manasan (1989).

Table 16: CHANGE IN THE INTERNAL RATE OF RETURN OF HYPOTHETICAL BOI REGISTERED FIRMS UNDER EO 226 a/
(In Percentage Points)

		Non Pioneer		Pioneer	
		n=10	n=20	n=10	n=20
1.	Tax holiday without extension	2.5	1.75	3.5	2.5
2.	Tax holiday with maximum extension	3.75	2.75	4.0	3.0
3.	Duty Exemption on Capital b/	3.5	2.5	3.5	2.5
4.	1+3	7.25	4.9	8.25	5.75
5.	2+3	8.75	6.0	9.0	6.5

a/ Change in IRR is computed relative to IRRo = 10%.

b/ Computed based on t_k = .2 and VAT where t_k is tariff on capital equipment.

Source: Table in Manasan (1989).

this regard by including a proportion of local content as tax credit for exporters. EO 226, on the other hand, has no mechanism at all to reach indirect exporters.

The tax credit on net value earned granted under BP 391 partially provides compensation for anti-export bias under (2) above. 10/ This incentive has been replaced by the income tax holiday under EO 226. Comparing line 2 in Table 15 and line 1 in Table 16 suggests that the two provisions (tax credit on net value earned under BP 391 and income tax holiday under EO 226) provide roughly the same benefits to exporters in terms of their impact on the IRR. Manasan (1989) notes, however, that the estimate for the impact of an income tax holiday (Table 16) is likely to be overstated, mainly since the analysis assumes that the registered firm is uniformly profitable over its life span. It is most likely that the firm would actually be incurring losses in the earlier years which coincide with the period when the tax holiday is available.

To summarize, the EO 226 is inferior to BP 391 (inadequate though it was) in providing compensation for the anti-export bias of the protection system.

On the "measured capacity" concept, much has been said about its negative impact. Still, it is a feature of all investment incentives including EO 226 except BP 391. Regulating entry implies some limitation or competition and could penalize potential exporters.

With regards to some concern about the competitiveness of BOI incentives with those offered by other countries, Manasan (1988) compared the investment incentives granted by the ASEAN countries and concluded that the ASEAN countries are equally competitive with each other before as after incentives (See Table 17). The comparison made use of EO 226 incentives. Hence, we can infer that BP 391 incentives have been more generous than those of other ASEAN countries with respect to export producers. Thus, shifting to EO 226 might have in effect reduced the attractiveness of the Philippines to footloose export industries.

The impact of the 1987 OIC could also be deduced from selected statistics on BOI approved projects from 1981 to 1988 under the successive versions of the Investment Incentives Act -- P.D. 1789, amended by BP 391 in 1983, then superseded by EO 226 (or 1987 OIC) in 1987.

10/ The compensation is partial since a tax credit of only 10 percent of net value earned is granted while estimates of EPR for importables have been shown to be much higher.

Table 17: INTERNAL RATE OF RETURN OF A HYPOTHETICAL FIRM UNDER SELECTED INCENTIVE SCHEMES IN ASEAN COUNTRIES 1988 a/

	Indonesia b/		Malaysia		Philippines		Singapore		Thailand	
	n=10	n=20	n=10	n=20	n=10	n=20	n=10	n=20	n=10	n=20
1. Regular Taxes	11.0	13.0			10.25	11.5	15.0	16.5	11.25	13.25
(no incentive)	10.0	12.5	10.25	11.1						
	9.0	12.0								
2. Tax Holiday	NA		16.5	15.0	12.5	13.5	17.0	17.25	12.0	13.5
(min. no. of years allowed)							19.0	18.75		
3. Tax Holiday	NA		16.75	17.0	14.1	15.0	20.0	19.0	14.0	15.0
(max. no. of years allowed)							20.0	19.75		
4. Duty Exemption on Capital	15.0	16.5	12.25	12.25	13.75	14.0	NA		15.0	16.5
	14.25	15.75								
	13.5	15.25								
5. (2 + 4)	15	16.5	19.35	17.35	17.5	17.0	17.0	17.25	16.5	17.0
	14.25	15.75					19.0	18.75		
	13.5	15.25								
6. (3 + 4)	15	16.5	20.0	19.25	19.25	18.4	20.0	19.0	19.0	18.5
	14.25	15.75					20.0	19.75		
	13.5	15.25								
7. Investment Allowance Only (max. allowed)	NA		16.0	15.1	NA		18.0	18.25	NA	

continuation of Table 17 ....

	Indonesia b/		Malaysia		Philippines		Singapore		Thailand	
	n=10	n=20	n=10	n=20	n=10	n=20	n=10	n=20	n=10	n=20
8. (7 + 4)			17.7	17.0	NA		18.0	18.25	NA	
9. Export Allowance Only c/			16.5	16.0					11.5	13.5
10. (2 + 4 + 9)	NA		20.0	19.5	NA				17.0	17.5
11. (3 + 4 + 9)	NA		20.0	20.0	NA				19.5	19.0
Memo items:										
tm	.25		.12		.2		0		.2	
u	.15/.25/.35		.40 + .05		.35		.33		.35	

a/
The assumed income stream used in these calculations is that which yields before tax IRR of .20

b/
for u = 15, 25, 35%, respectively

c/
for 100% export.

Source: Manasan (1988).

Table 18a provides a summary of selected statistics for the years 1981-1988 on new and expansion projects approved under P.D. 1789, in 1983 as amended by BP 391, and EO 226 from 1987-1988. The figures are very revealing. The total number of firms changed with the state of the economy -- falling in 1984 with the economic recession, and in 1986 at the height of political uncertainty and then leaping in 1987 and 1988 with economic recovery and regained confidence in the government. Most revealing and interesting, however, are the figures for capital-labor ratio (K/L), which is estimated by project cost divided by employment, and average cost per firm, which could indicate size. The K/L ratio fell drastically during the period 1983 to 1986 when BP 391 was effective from ₱512,740 per employee in 1982 to ₱83,660 in 1986. Then the ratio started to rise again in 1987 with EO 226, more than doubling in 1988 to ₱224,290 per employee. Deflating by the GNP deflator, which is done in Table 18b, did not alter the results. The same pattern holds. A similar trend could also be discerned for average cost per firm.

The large differences clearly indicate the capital bias of investment incentive system prior to 1983, which to some extent (though not fully) seems to be replaced in 1987 with the EO 226. Or conversely, the much lower K/L ratio for the years under BP 391 verifies its neutrality with respect to factor prices.

Tables 19a and 19b present the same statistics, disaggregated by type of producers -- agricultural, domestic, export and other producers. The differences in K/L ratio are less significant for export producers, especially using constant prices. This could imply that exports responded more to the country's comparative advantage in labor. Except for 1984, the K/L ratio for domestic producers was much higher. This again confirms exports to be more labor-intensive.

In sum then, the incentive provided under BP 391 is superior to those of EO 226 in terms of its promotion of labor-intensive and export industries. An analysis of how the incentives affected hypothetical firms bears this conclusion. And statistics seem to confirm it as well.

V. EXPORT PROMOTION SCHEMES

As could be gleaned from the previous section, the OIC is one of the major instruments for granting incentives to exports. Aside from the BOI export incentives provided under the OIC, there are a number of other schemes which are primarily aimed at providing "free-trade" status to exports by granting exporters access to intermediate inputs at world market prices.

To ensure that exporters are competitive with their foreign counterparts as far as intermediate input cost is concerned, the government administers tax and duty exemption as well as tax and

Table 18a: SELECTED STATISTICS ON NEW AND EXPANSION PROJECTS APPROVED UNDER P.D. 1789 (WITH INCENTIVES)
(In Thousand Pesos)
(1981-1988)

YEAR	No. of firms	Project Cost (Nominal)	Employment	K/L	Average Cost per firm
	(1)	(2)	(3)	(2)/(3)	(2)/(1)
1981	193	11,364,366	53,110	213.98	58,882.73
1982	143	14,497,342	28,274	512.74	101,380.01
1983	143	7,437,044	27,980	265.80	52,007.30
1984	121	7,203,588	37,830	190.42	59,533.79
1985	136	2,742,089	23,961	114.44	20,162.42
1986	114	2,191,961	26,201	83.66	19,227.73
1987					
P.D. 1789	230	5,369,942	48,782	110.08	23,347.57
E.O. 226	181	4,474,199	33,319	134.28	24,719.33
1988 *	616	28,720,161	128,052	224.29	46,623.64

* E.O. 226

Source: Department of Trade and Industry

Table 18b: SELECTED STATISTICS ON NEW AND EXPANSION PROJECTS APPROVED UNDER P.D. 1789 (WITH INCENTIVES)
(In Thousand Pesos)
(1981-1988)

YEAR	No. of firms	Project Cost a/ (Real)	Employment	K/L	Average Cost per firm
	(1)	(2)	(3)	(2)/(3)	(2)/(1)
1981	193	11,364,366	53,110	213.98	58,882.73
1982	143	13,371,779	28,274	472.94	93,508.94
1983	143	6,142,534	27,980	219.53	42,954.78
1984	121	3,970,818	37,830	104.96	32,816.68
1985	136	1,278,566	23,961	53.36	9,401.22
1986	114	1,005,223	26,201	38.37	8,817.75
1987					
P.D. 1789	230	2,283,490	48,782	46.81	9,928.22
E.O. 226	181	1,902,588	33,319	57.10	10,511.54
1988 *	616	11,187,537	128,052	87.37	18,161.59

* E.O. 226
a/ Deflated by GNP deflator (1981=100)

Source: Department of Trade and Industry

Table 19a: SELECTED STATISTICS ON NEW AND EXPANSION PROJECTS
(WITH INCENTIVES) APPROVED UNDER P.D. 1789
(In Thousand Pesos)
(1981-1988)

	1981	1982	1983	1984	1985	1986	1987 P.D. 1789	1987 E.O. 226	1988 ‡
NO. OF FIRMS	193	143	143	121	136	114	230	181	616
Agricultural Producers	40	15	18	13	12	16	24	23	
Domestic Producers	34	23	32	19	8	5	9	6	77
Export Producers	118	105	93	89	116	93	197	152	539
Others	1								
PROJECT COST a/	11,364,366	14,497,342	7,437,044	7,203,588	2,742,089	2,191,961	5,369,942	4,474,199	28,720,161
Agricultural Producers	2,650,230	627,282	476,046	703,188	486,807	422,576	627,560	826,099	
Domestic Producers	3,533,599	11,872,654	5,888,653	1,837,886	206,305	199,916	419,582	366,562	12,346,820
Export Producers	5,150,537	2,797,406	1,872,345	5,462,514	2,048,977	1,569,469	4,322,800	3,281,538	16,374,141
Others	30,000								
GNP Deflator	100.000	108.417	121.075	181.413	214.466	218.057	235.164	235.164	256.716
EMPLOYMENT	53,110	28,274	27,980	37,830	23,961	26,201	48,782	33,319	128,052
Agricultural Producers	10,650	3,285	2,728	2,571	3,455	2,129	3,169	2,437	
Domestic Producers	9,353	6,210	6,507	9,787	226	237	2,704	1,301	22,045
Export Producers	32,989	18,779	18,745	25,472	20,280	23,835	42,909	29,581	106,007
Others	118								
K/L	214	513	266	190	114	84	110	134	224
Agricultural Producers	249	191	175	274	141	198	198	339	
Domestic Producers	378	1,783	782	186	913	844	155	282	568
Export Producers	156	149	100	214	101	66	101	111	154
Others	254								
AVERAGE COST PER FIRM	58,883	101,380	52,007	59,534	20,162	19,228	23,348	24,719	46,624
Agricultural Producers	66,256	41,819	26,447	54,091	40,567	26,411	26,148	35,917	
Domestic Producers	103,929	481,420	159,820	54,626	25,788	39,983	46,620	61,094	160,338
Expdrt Producers	43,649	26,642	20,133	61,377	17,664	16,876	21,943	21,589	30,379
Others	30,000								

‡ E.O. 226
a/ Nominal

Source: Department of Trade and Industry

Table 19b: SELECTED STATISTICS ON NEW AND EXPANSION PROJECTS (WITH INCENTIVES) APPROVED UNDER P.D. 1789
In Thousand Pesos
(1981-1988)

	1981	1982	1983	1984	1985	1986	1987 P.D. 1789	1987 E.O. 226	1988 ‡
NO. OF FIRMS	193	143	143	121	136	114	230	181	616
Agricultural Producers	40	15	18	13	12	16	24	23	
Domestic Producers	34	23	32	19	8	5	9	6	77
Export Producers	118	105	93	89	116	93	197	152	539
Others	1								
PROJECT COST b/	11,364,366	13,371,835	6,142,510	3,978,822	1,278,566	1,005,224	2,283,488	1,902,587	11,187,523
Agricultural Producers	2,650,230	578,583	393,183	387,617	226,986	193,792	266,861	351,286	0
Domestic Producers	3,533,599	10,213,824	4,202,893	572,112	96,195	91,681	178,421	155,875	4,889,213
Export Producers	5,150,537	2,580,228	1,546,434	3,011,093	955,385	719,752	1,838,207	1,395,425	6,378,309
Others	30,000	0	0	0	0	0	0	0	0
EMPLOYMENT	53,110	28,274	27,980	37,830	23,961	26,201	48,782	33,319	128,052
Agricultural Producers	10,650	3,285	2,728	2,571	3,455	2,129	3,169	2,437	
Domestic Producers	9,353	6,210	6,507	9,787	226	237	2,704	1,301	22,045
Export Producers	32,989	18,779	18,745	25,472	20,280	23,835	42,909	29,581	106,007
Others	118								
K/L	213.98	472.94	219.53	104.96	53.36	38.37	46.81	57.10	87.37
Agricultural Producers	248.85	176.13	144.13	150.77	65.70	91.02	84.21	144.15	
Domestic Producers	377.80	1644.61	645.90	58.46	425.64	386.84	65.98	119.81	218.15
Export Producers	156.13	137.40	82.50	118.21	47.11	30.20	42.84	47.17	60.17
Others	254.24								
AVERAGE COST PER FIRM	58,882.73	93,509.33	42,954.62	32,816.71	9,401.22	8,817.75	9,928.21	10,511.53	18,161.56
Agricultural Producers	66,255.75	38,572.18	21,843.49	29,816.71	18,915.47	12,111.97	11,119.19	15,273.32	
Domestic Producers	103,929.38	444,044.51	131,340.41	30,111.17	12,024.34	18,336.12	19,824.56	25,979.17	45,467.32
Export Producers	43,648.62	24,573.60	16,628.32	33,832.50	8,236.08	7,739.27	9,331.00	9,1	
Others	30,000.00								

‡ E.O. 226
b/ Real - Deflated using GNP deflator (1981=100)

Source: Department of Trade and Industry.

duty drawback mechanisms. Exporters may avail of tax and duty exemption on imported intermediate inputs via any one of the following: (1) locating in an export processing zone (EPZ), (2) using bonded manufacturing warehouse (BMW) facilities and (3) importing under Customs Administrative Order 3-78 (CAO 3-78). On the other hand, tax and duty drawback on imported intermediate inputs used in export production may be obtained under the following modes: (1) individual drawback scheme of the Bureau of Customs (BOC) and (2) fixed drawback scheme of the BOI.

The need for export promotion schemes has long been recognized. These schemes were conceived and developed even before the Aquino government took over. The performance of the present government should then be judged according to how much improvement it has implemented not only in terms of incentives but also in terms of their administration.

Manasan (1989) took an inventory of the documentary and other requirements for availing of the incentives under these various export promotion schemes -- the BMW, the CAO 3-78, the BOC drawback claims and fixed drawback schemes. Tables 20-24, which were lifted from Manasan (1989), provide a summary of these requirements. The procedures remain long and tedious. For example, the documentary requirements for the establishment of a BMW add up to at least 15 (Table 20). Foremost of these are (1) a "formula of manufacture," and (2) a feasibility study. There are also fees which make BMWs costly to operate. CAO 3-78 is intended for small and medium exporters (although customs common bonded warehouses or CCBWs could also serve this purpose). Documentary requirements are also numerous (19) and complicated (Tables 21 and 22). It also calls for the submission of "formula of manufacture" and the posting of a re-export bond -- one and a half times that under the BMW scheme.

The requirements for drawback claims under the BOC scheme are presented in Table 23. Common with the other schemes are requirements on the formula of manufacture and BOI certification of nonavailability of local substitutes. Tax credits under this system are available from 7 to 30 days upon submission of necessary documents. The requirements and procedures to be followed for firms to benefit from the fixed drawback system are relatively simple (See Table 24). Tax credits are based on predetermined rates set by the BOI.

Locating in EPZ provides the freest access to imported inputs. The BMWs exempt importers from paying taxes and duties on imported inputs but there are financial costs entailed in maintaining them (supervision fees and re-export bonds). The procedures for BMWs are simpler relative to the other schemes but they are still more tedious than in other countries which do not require a "formula of manufacture" and posting of a re-export bond. The CCBW is a positive step as it allows smaller exporter to avail of export incentives.

Table 20: DOCUMENTARY AND OTHER REQUIREMENTS FOR ESTABLISHMENT OF BMWs

WITHOUT SUBCONTRACTING

1. Instruments evidencing absolute ownership or lease contract covering the proposed warehouse;
2. Plant location showing means of access to the property;
3. Plant layout showing and describing the size and construction of the proposed warehouse together with the intended use of each room, section or compartment as well as the surrounding premises;
4. Flowchart showing the nature of the work of manufacture/ processing;
5. Certified true copy of Registration Certificate with the SEC together with the Articles of Incorporation and By-Laws of Co-Partnership, as the case may be;
6. Certified true copy of Registration Certificate with the BTRCP and BIR;
7. List of machinery and equipment;
8. Certified true copy of Certificate of Registration with the BOI;
9. BOI Indorsement of the application (for garments, GTEB issues the license to operate a BMW);
10. Copy of Inspection Permit from the Electrical Department;
11. List of articles to be manufactured;
12. List of all raw materials to be imported;
13. Formula of Manufacture, patterns or sketches of articles to be exported;
14. Building (Mayor's) Permit; and
15. Copy of project feasibility study of BMW operation.

continuation of Table 20 ....

WITH SUBCONTRACTING

1. Name of subcontractor;

2. Copy of contract with the subcontractor;

3. Certificate of accreditation of the subcontractor, if already accredited by BOC; if the subcontractor selected is not yet accredited, a letter of application of the subcontractor together with other documents required for the application;

4. Flowchart showing the specific processing stage to be subcontracted; and

5. List of materials to be subcontracted.

PHYSICAL CONDITIONS

1. Plant Location - The proposed BMW shall be located in an accessible place to ensure easy inspection by Customs officials.

2. Compartments for Materials/Articles
   a. Every BMW shall have permanent compartments separated from the premises to be used exclusively for the storage and safekeeping of all imported materials, finished articles ready for export, and by products/wastages;
   b. The compartment shall be properly secured to prevent any unauthorized person from having access thereto;
   c. Such compartments shall each have two locks: the key of one lock shall be kept by the Customs bonded warehouse officer at all times and the key to the other lock shall be kept by the operator;
   d. The contents therein shall be properly arranged to give all practicable convenience to authorized Customs official making the required examination, inspection or inventory.

3. Office Space for Customs Personnel - Accessible and adequate office space shall be provided for the Customs personnel to be assigned at the BMW.

FEES

1. Supervision fee equal to ₱45,000 per annum.

2. Performance Bond in the amount of ₱200,000 to guarantee compliance with laws and regulations affecting BMWs.

3. Re-export bond equivalent to the amount of duties, taxes and other charges that would otherwise be due.

Source: DTI (1988).

Note: Table in Manasan (1989).

Table 21: DOCUMENTARY REQUIREMENTS IN APPLICATION FOR DUTY EXEMPTION UNDER CAO 3-78

1. CB IMPORT AUTHORITY (IA)

Requirements for issuance of IA:

1.1 Copy of the Certificate of Registration with the concerned government agency, such as the BOI, GTEB, PITC, or CB; in the absence thereof, a Certificate of Qualification from the BOC;

1.2 Copy of the processing agreement between consignee and foreign principal or supplier, or the confirmed purchase order or export L/C;

1.3 For regulated items, commodity clearance from the appropriate government agency;

1.4 Proforma Invoice; and

1.5 Mark-up Computation Report approved by the CB Export Department (this requirement can be waived for the first shipment).

Requirements for MCR

1.5.1 Copy of Processing Agreement of Confirmed Purchase Order (PO);

1.5.2 Copy of Certificate of Registration as export producer with the BOI, CB, GTEB, EPZA or other government agencies (for new applications); or

Copy of Certificate of Qualification (if not registered with any government agency);

1.5.3 If the product's quantity and/or fee/billing is based on the PO, Agreement or other documents - copy of source document; or

If the product's quantity and/or fee/billing is estimated - explanation on how the estimated were derived, i.e., assumptions used, basis of assumptions and supporting documents/computations, if any;

1.5.4 If the quantity/cost of the consigned materials is based on the invoice or other documents - copy of source document; or

If the quantity/cost of consigned materials is estimated - explanation on how the estimates were derived i.e., assumption used, basis of assumptions and supporting documents/ computations, if any; and

continuation of Table 21 ....

1.5.5 Formula of Manufacture submitted to the Bureau of Customs.

2. BOI certificate of non-availability

3. Re-export bond equal to one and one half times the ascertained duties, taxes and other charges.

4. Certificate of Qualification (CQ)

Requirements for CQ

4.1 Authentic copy of importer's Certificate of Registration with the SEC, and the copy of the Articles of Incorporation or Articles of Co-Partnership, for corporations or partnerships; and Certificate of Registration with the BTRCP (formerly BDT) for sole proprietorships;

4.2 Financial Statement certified by the BIR;

4.3 Certified copy of a valid and subsisting contract between the importer and foreign supplier/buyer;

4.4 Formula of Conversion certified by the Department of Science and Technology or any appropriate government agency;

4.5 Plant's location map; and

4.6 Sworn Statement stating the following:

i. That the materials are to be imported on consignment basis, and are solely intended for commercial export or sample purposes, based on the design/pattern prescribed by the supplier/foreign buyer.

ii. Procedures to be followed in the production of imported materials; and

iii. That the applicant does not have the financial capacity to make prior payment of the Customs duties, taxes and other charges, or does not have the necessary resources to establish and operate a bonded manufacturing warehouse.

Source: DTI (1988).

Note: Table in Manasan (1989).

Table 22: PROCEDURES FOR THE RELEASE OF IMPORTATION UNDER CAO 3-78

he following are the procedures:

. The importer submits to the Entry Processing Division the following:

  a. Import Entry and its supporting documents; and

  b. Copy of the CQ.

. The Entry Processing Division processes the entry and stamps the name "SMALL SCALE INDUSTRIES" and forwards the entry to the Special Assessment Unit, Bonded Warehouse Division, Port of Manila (POM), or the Warehousing Unit, Assessment Division, Ninoy Aquino International Airport (NAIA).

. The Special Assessment of Warehousing Unit:

  a. Undertakes an examination and appraisal of the shipment pursuant to existing rules and regulations;

  b. Verifies if the imported materials as declared in the entry documents are the ones specified in the CQ;

  c. Adds the quantity of raw materials imported to date and checks if the quantity specified in the contract was not exceeded; and

  d. Transmits entry to the Bonds Division.

. The Bonds Division, on the basis of the documents presented:

  a. Checks if there are due and demandable bonds from previous importations;

  b. Checks and approves ordinary re-export bonds; and

  c. Transmits entry to the Cash Division, POM, or the Liquidation Unit, Collection Division, NAIA.

. The Cash Division or Liquidation Unit:

  a. Receives entry and issues Permit to Deliver Imported Goods (POM) or Gatepass (NAIA);

  b. Forwards the same to the Piers and Inspection Division, POM, or the Office of the Bonded Warehouse Supervisor, or the PAL Warehouse, NAIA; and

  c. Returns the entry to the Special Assessment Unit, Bonded Warehouse Division, POM, or the Warehousing Unit, Assessment Division, NAIA.

ource: DTI (1988).

ote: Table in Manasan (1989).

Table 23: REQUIREMENTS FOR BOC DRAWBACK CLAIMS

1. Import documents;
2. Export documents;
3. Bank credit memo or similar document evidencing remittance of export proceeds;
4. Abstract of record (Form No. 1);
5. Certificate of non-availability of competitive substitutes for the imported materials for regulated commodities under CB Circular 1029;
6. Formula of manufacture or conversion issued by DOST or other related agencies;
7. Certificate of exportation (Form No. 11), if required; and/or
8. Constructive exportation documents (for indirect exporters);
    a. Purchase Order;
    b. Sales Invoive
    c. Delivery Receipt;
    d. Certificate of sales and delivery confirmed by a Chief of the Bonded Warehouse Division (Drawback Form No. 1-A); and/or
    e. Certificate of sales and delivery confirmed by EPZA (Drawback Form No. 1-B).

Source: DTI (1988).

Table 24: REQUIREMENTS AND PROCEDURES FOR FIXED DRAWBACK SCHEME

ocumentary Requirements:

1. Export invoice;
2. Bill of Lading;
3. Bank Credit Memo; and
4. A statement under oath stating that:
   a. Taxes and duties have been paid on the raw materials/supplies;
   b. Said raw materials/supplies are not enjoying preferential rates; and
   c. Said raw materials/supplies were purchased within one (1) year from date of actual exportation.

rocedures for Availment of Standard Rebate:

1. Importer/claimant files application including the required documents with the Tax Rebate Center (TRC) through the Records Section of the BOI.
2. If the documents are complete, applicant pays the application fees with the Cashier. Otherwise, documents are returned to the applicant for completion.
3. Tax Credit Application (TCA) is forwarded to the industry group and evaluated by the Analyst.
4. The Analyst prepares an Evaluation Report and issues a Tax Credit Certificate (TCC) amounting to the computed tax credit based on the standard rate.
5. The deputized representative of the BOC and the BIR to the Center sign the TCC's in the following manner:
   a. The representative of the Customs Commissioner signs the tax credits against tariff duties.
   b. The representative of the Commissioner of Internal Revenue signs tax credits against value-added tax.
6. The TRC releases the TCC to the supplier/applicant within two (2) working days from the time the application is officially accepted.

ource: DTI (1988).

ote: Table in Manasan (1989).

With regards the CAO 3-78, the support for small and medium scale exporter is weakened by the complicated procedures and higher re-export bond requirement. On the other hand, the drawback system under BOC and BOI carries additional costs arising from interest on advanced payment of duties and taxes. The fixed drawback system is an improvement but few products are covered.

Judging from the number of requirements and complexity of procedures, availment of export incentives, particularly duty-free importation of inputs, is still far from being automatic. Furthermore, all exporters, except those located in EPZ, are required to get a BOI certification of non-availability of domestic substitute for the imported raw materials.

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